

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

One Financial Center
Boston, Massachusetts 02111

701 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
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Fax: 202/434-7400

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Fax: 617/542-2241

Peter S. Lawrence

Direct Dial Number
617/348-1782

September 28, 1995

To the Stockholders of America Online, Inc.
participating in its public offering:

As you know, America Online, Inc. (the "Company") is preparing to make a public offering of its common stock, in which you are participating as a selling stockholder. This letter and the enclosed materials explain the documents which you must complete and return in order to participate in this public offering. **THESE DOCUMENTS MUST BE RETURNED IN THE FEDERAL EXPRESS ENVELOPE INCLUDED HERewith AS SOON AS POSSIBLE, BUT IN NO EVENT LATER THAN THURSDAY, OCTOBER 5, 1995.**

The Public Offering

The terms and conditions of the Company's public offering will be substantially as set forth in the registration statement on Form S-3, which the Company filed with the Securities and Exchange Commission (the "SEC") on September 18, 1995, as amended by Amendment No. 1 thereto filed on September 25, 1995 (the "Registration Statement"), and the proposed form of Underwriting Agreement among the Company, the underwriters and the selling stockholders. The Registration Statement registers under federal securities laws the shares of common stock which may be sold in the public offering and contains certain information regarding the Company and the offering. The Underwriting Agreement provides for the purchase by the underwriters of common stock from the Company and the selling stockholders, and the resale by the underwriters of that common stock to the public. Copies of the Registration Statement and the proposed form of Underwriting Agreement are enclosed with this letter under Tabs 1 and 2, respectively.

The Registration Statement and the Underwriting Agreement contemplate that a total of 3,500,000 shares of common stock will be offered by the underwriters to the public, of which it is anticipated that 1,935,130 shares will be purchased by the underwriters from the Company and 1,564,870 shares will be purchased by the underwriters from the selling stockholders. The number of shares to be purchased from you is set forth on the Schedule of Selling Shareholders included herewith under Tab 3.

To the Stockholders of America Online, Inc.
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The price at which the shares will be purchased from the Company and the selling stockholders and the price at which they will be resold to the public has not yet been determined. These prices will be fixed based upon the price of the Company's stock on the day the Registration Statement is declared effective by the SEC, which date is expected to be on or about Friday, October 6, 1995. It is currently expected that the offering will commence the week of October 8, 1995 and that the closing of the offering (at which the underwriters will pay the Company and the selling stockholders for the shares being purchased from them) will occur within one week after the commencement of the offering. It should be kept in mind that the public offering is conditioned upon favorable market conditions and certain other contingencies.

Documents Enclosed

In addition to the Registration Statement, form of Underwriting Agreement and Schedule of Selling Shareholders, copies of the following documents are enclosed with this letter under the following tabs:

4. Selling Stockholders' Irrevocable Power of Attorney (the "Power of Attorney").
5. Letter of Transmittal and Custody Agreement (the "Custody Agreement").
6. Form W-9 (Payer's Request for Taxpayer Identification Number and Certification).
7. Stock Power.
8. Lock-up Agreement.

Power of Attorney

The Power of Attorney authorizes Stephen M. Case, Lennert J. Leader and Ellen M. Kirsh, and each of them, to act on your behalf in all respects in connection with the sale of the shares of common stock to be sold by you to the underwriters. The number of shares to be sold by you is set forth on the Schedule of Selling Shareholders included herewith under Tab 3. Among the acts which the Power of Attorney specifically authorizes Messrs. Case and Leader and Ms. Kirsh to undertake on your behalf are (i) the execution of the

To the Stockholders of America Online, Inc.
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Page 3

Underwriting Agreement, in such form as may finally be agreed, (ii) the delivery pursuant to the Underwriting Agreement of the common stock being sold by you, and (iii) the execution and delivery of certificates confirming the accuracy of your representations and warranties contained in the Underwriting Agreement. Because you will be a party to, and bound by, the terms of the Underwriting Agreement, please review the enclosed draft carefully - particularly Section 2 on pages 7-8 (which contains representations and warranties by you) and Section 9 on pages 22-27 (in which you agree to indemnify the Underwriters against certain liabilities, subject to the limitations in that Section) - before executing the Power of Attorney.

Under the terms of the Power of Attorney, the Custody Agreement and the Underwriting Agreement, you will be obligated to sell your shares to the underwriters for a purchase price equal to the price at which the common stock is initially offered for sale to the public, minus the underwriting discount (which is expected to be approximately 3.5% of the public offering price).

To properly execute and deliver the Power of Attorney, please:

1. Date and sign the Power of Attorney on page 8. The Power of Attorney should be signed in exactly the same manner as your share certificates are registered.
2. Have the signature or signatures guaranteed in the manner described therein.
3. Complete the information on page 8 with respect to your address, telephone number/telecopy number and social security number.
4. Complete Attachments A & B to the Power of Attorney.

Custody Agreement

The Custody Agreement authorizes America Online, Inc. to act as custodian for the shares being sold by you, in order to expedite their delivery at the closing of the offering. To properly execute and deliver to the Custody Agreement, please:

1. Date and sign the Custody Agreement on page 5. The Custody Agreement should be signed in exactly the same manner as your share certificates are registered.

To the Stockholders of America Online, Inc.

September 28, 1995

Page 4

2. Have the signature or signatures guaranteed in the manner described therein.
3. Complete your full name and address on page 5.
4. Complete the information on page 6 under the heading "Certificates Deposited."
5. Enclose with the Custody Agreement the stock certificate(s) you have indicated on page 6. For the stock certificate(s), please either (i) complete and sign (in the same manner as you sign the Custody Agreement) the form of assignment on the reverse side thereof and have the signature or signatures guaranteed by a bank or trust company, savings and loan association, a credit union or a securities broker or dealer, or (ii) complete and sign, in the same manner, the stock power enclosed with this letter under Tab 7, and have the signature or signatures guaranteed in the manner described above.

Supporting Documentation

The Company reserves the right to request additional supporting materials which it may reasonably require in order to render its opinion with respect to the selling stockholders.

Form W-9

The Form W-9 is intended to document the underwriters' compliance with federal tax withholding requirements. Please complete this form in accordance with the accompanying instructions.

Lock-up Agreement

The Lock-up agreement provides that you will not sell or otherwise transfer any securities of the Company for a period of 90 days after the offering. Please sign and date this agreement.

Return of Documents

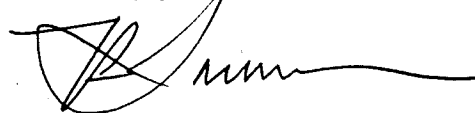
The following documents should be completed by you, in accordance with the instructions contained in this letter, and returned to the undersigned in the enclosed Federal Express envelope as soon as possible, but in no event later than **Thursday, October 5, 1995:**

To the Stockholders of America Online, Inc.
September 28, 1995
Page 5

1. Power of Attorney (3 copies)
2. Custody Agreement (3 copies)
3. Stock certificates, endorsed on the back or accompanied by the stock power included under Tab 7, duly executed (1 copy)
4. Form W-9 (1 copy)
5. Lock-up Agreement (1 copy)

If you have any questions concerning the enclosed materials, please call me at (617) 348-1782.

Very truly yours,



Peter S. Lawrence

PSL:jrl
Enclosures

cc: *America Online, Inc.*
Lennert J. Leader, Senior Vice President, CFO
Treasurer and Chief Accounting Officer
Ellen M. Kirsh, Esquire, Vice President,
General Counsel and Secretary
Eric L. Keller, Esquire

*Mintz, Levin, Cohn, Ferris,
Glovsky and Popeo, P.C.*
Jonathan L. Kravetz, Esquire

Davis Polk & Wardwell
Norman Champ, Esquire

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AMERICA ONLINE, INC.

(Exact name of registrant as specified in charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

7375
(Primary Standard Industrial
Classification Code Number)

54-1322110
(I.R.S. Employer
Identification No.)

8619 Westwood Center Drive
Vienna, Virginia 22182-2285
Tel. No.: (703) 448-8700

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Ellen M. Kirsh, Esq.
Vice President, General Counsel and Secretary
America Online, Inc.

8619 Westwood Center Drive
Vienna, Virginia 22182-2285
Tel. No.: (703) 448-8700

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:

Jonathan L. Kravetz, Esq.
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
One Financial Center
Boston, MA 02111
(617) 542-6000

Alan Dean, Esq.
Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017
(212) 450-4000

Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ☐

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☒

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered (1)	Amount to be Registered (2)	Proposed Maximum Offering Price Per Share (3)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$0.01 par value, and related Rights	4,025,000 shares	\$65.1875	\$262,379,688	\$90,476

- (1) The Company adopted a Rights Agreement on April 23, 1993, which was amended on January 31, 1995. Pursuant to this shareholder rights plan, holders of Common Stock were granted the right to purchase additional equity securities under certain defined circumstances. None of such rights are currently exercisable. Value attributable to such rights, if any, is reflected in the market price of the Common Stock.
- (2) Includes 525,000 shares of Common Stock issuable by the Company upon exercise of an option to the Underwriters solely to cover over-allotments, if any. See "Underwriting."
- (3) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457, based on the average high and low sale prices of the Common Stock on September 15, 1995, as reported on the Nasdaq National Market.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

EXPLANATORY NOTE

This Registration Statement contains two forms of prospectus: one to be used in connection with a United States and Canadian offering (the "U.S. Prospectus") and one to be used in connection with an international offering (the "International Prospectus"). The two prospectuses will be identical in all respects except for the front cover pages.

The form of the U.S. Prospectus is included herein and the form of the front cover page of the International Prospectus follows the front cover page of the U.S. Prospectus.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

PROSPECTUS (Subject to Completion)
Issued September 25, 1995

Domestic

3,500,000 Shares



America Online, Inc.
COMMON STOCK

Of the 3,500,000 Shares of Common Stock being offered, 2,800,000 Shares are being offered initially in the United States and Canada by the U.S. Underwriters and 700,000 Shares are being offered initially outside the United States and Canada by the International Underwriters. See "Underwriters." Of the 2,800,000 Shares of Common Stock being offered by the U.S. Underwriters, 1,263,740 are being sold by the Company and 1,536,260 are being sold by the Selling Shareholders. See "Selling Shareholders." All of the Shares being offered by the International Underwriters are being sold by the Company. The Company will not receive any part of the proceeds from the sale of Shares by the Selling Shareholders. The Company's Common Stock is traded on the Nasdaq National Market under the symbol "AMER." On September 21, 1995, the last reported sale price of the Common Stock on the Nasdaq National Market was \$72 1/4.

**FOR A DISCUSSION OF CERTAIN FACTORS WHICH SHOULD BE
 CONSIDERED BY PROSPECTIVE PURCHASERS OF THE
 SHARES, SEE "RISK FACTORS" COMMENCING ON PAGE 5.**

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES
 AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE
 SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES
 COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.
 ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

PRICE \$ A SHARE

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions (1)</u>	<u>Proceeds to Company (2)</u>	<u>Proceeds to Selling Shareholders</u>
Per Share	\$	\$	\$	\$
Total (3)	\$	\$	\$	\$

- (1) The Company and the Selling Shareholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriters."
- (2) Before deducting expenses of the offering payable by the Company estimated at \$350,000.
- (3) The Company has granted the Underwriters an option, exercisable within 30 days of the date hereof, to purchase up to 525,000 additional Shares at the Price to Public less Underwriting Discounts and Commissions for the purpose of covering over-allotments, if any. If the Underwriters exercise such option in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$, and \$, respectively. See "Underwriters."

The Shares are offered, subject to prior sale, when, as and if accepted by the Underwriters named herein and subject to the approval of certain legal matters by Davis Polk & Wardwell, counsel for the Underwriters. It is expected that delivery of the Shares will be made on or about September , 1995 at the office of Morgan Stanley & Co. Incorporated, New York, N.Y. against payment therefor in New York funds.

MORGAN STANLEY & CO.
 Incorporated

GOLDMAN, SACHS & CO.

MERRILL LYNCH & CO.

ALEX. BROWN & SONS
 Incorporated

September , 1995

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

PROSPECTUS (Subject to Completion)
Issued September 25, 1995

International

3,500,000 Shares



America Online, Inc.
COMMON STOCK

Of the 3,500,000 Shares of Common Stock being offered, 700,000 Shares are being offered initially outside of the United States and Canada by the International Underwriters and 2,800,000 Shares are being offered initially in the United States and Canada by the U.S. Underwriters. See "Underwriters." All of the Shares being offered by the International Underwriters are being sold by the Company. Of the 2,800,000 Shares of Common Stock being offered by the U.S. Underwriters, 1,263,740 are being sold by the Company and 1,536,260 are being sold by the Selling Shareholders. See "Selling Shareholders." The Company will not receive any part of the proceeds from the sale of Shares by the Selling Shareholders. The Company's Common Stock is traded on the Nasdaq National Market under the symbol "AMER." On September 21, 1995, the last reported sale price of the Common Stock on the Nasdaq National Market was \$72¹/₄.

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 AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE
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 COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.
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Total (3)	\$	\$	\$	\$

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- (2) Before deducting expenses of the offering payable by the Company estimated at \$350,000.
- (3) The Company has granted the Underwriters an option, exercisable within 30 days of the date hereof, to purchase up to 525,000 additional Shares at the Price to Public less Underwriting Discounts and Commissions for the purpose of covering over-allotments, if any. If the Underwriters exercise such option in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$, and \$, respectively. See "Underwriters."

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MORGAN STANLEY & CO.
International

GOLDMAN SACHS INTERNATIONAL

MERRILL LYNCH INTERNATIONAL LIMITED
ALEX. BROWN & SONS
International

September , 1995

No dealer, salesman or other person has been authorized in connection with the offering made hereby to give any information or to make any representations not contained or incorporated by reference in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, any Underwriter, any Selling Shareholder or any other person. All information contained in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or in the facts herein set forth since the date hereof. This Prospectus does not constitute an offer to sell or a solicitation of any offer to buy any security other than the securities covered by this Prospectus, nor does it constitute an offer to or solicitation of any person in any jurisdiction in which such offer or solicitation may not be lawfully made.

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AVAILABLE INFORMATION

The Company is subject to the informational reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy and information statements and other information with the Securities and Exchange Commission (the "Commission"). Reports, proxy statements and other information filed by the Company with the Commission may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at 7 World Trade Center, Suite 1300, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such materials may also be obtained by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Such reports, proxy statements and other information concerning the Company are also available for inspection at the offices of the Nasdaq Stock Market, Inc., Reports Section, 1735 K Street, Washington, D.C. 20006.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed by the Company with the Commission are incorporated herein by reference:

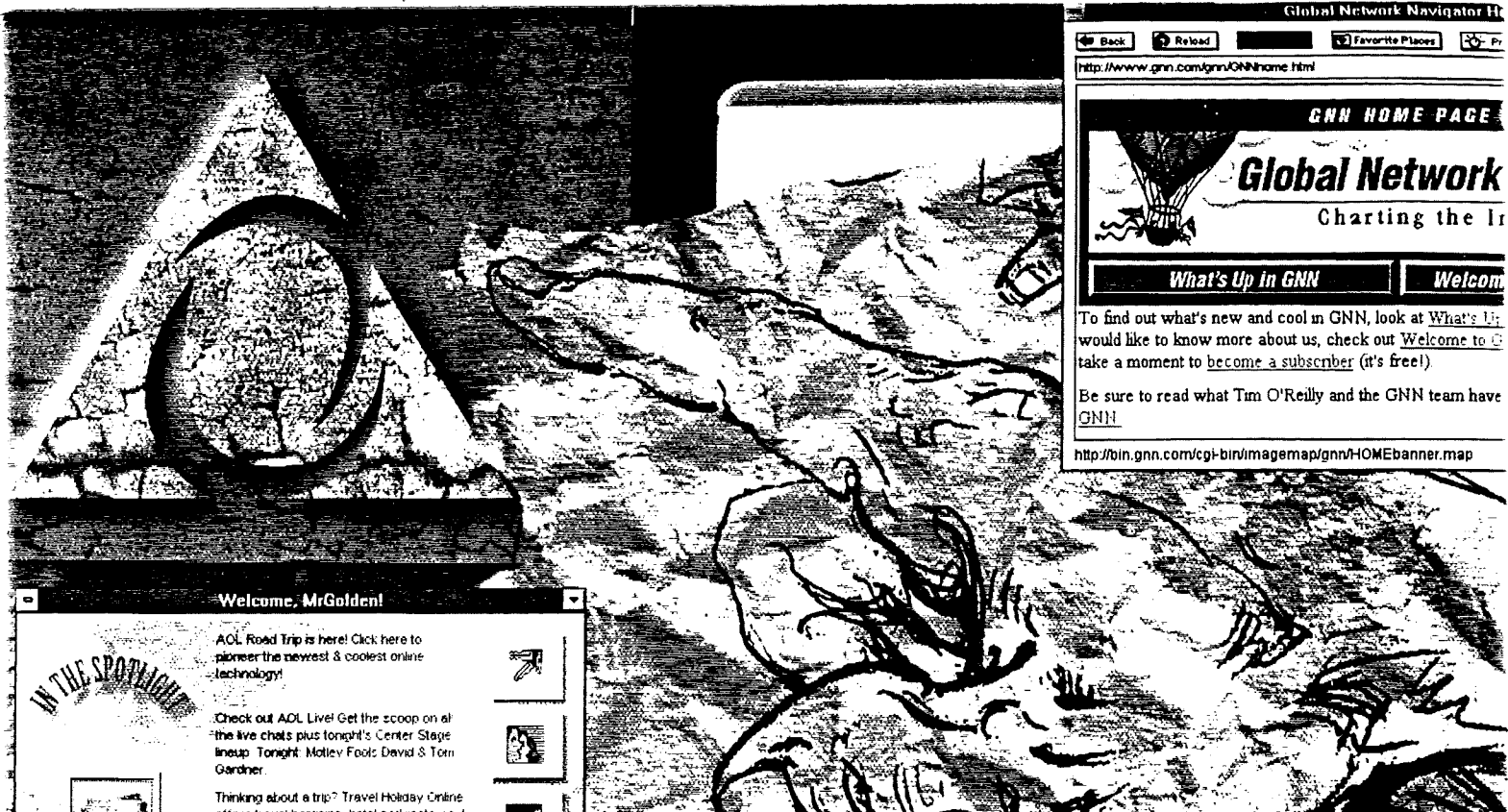
1. the Annual Report of the Company on Form 10-K for the year ended June 30, 1995; and
2. the description of the Company's Common Stock which is contained in a registration statement filed under the Exchange Act, including any amendments and reports filed for the purpose of updating such description.

All documents filed by the Company with the Commission pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date hereof and prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the filing date of such document.

The Company will provide without charge to each person to whom a copy of this Prospectus is delivered, upon the written or oral request of such person, a copy of any or all of the documents which have been incorporated by reference herein, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference therein). Requests for such copies should be directed to: Ellen M. Kirsh, Esq., Vice President, General Counsel and Secretary of the Company, 8619 Westwood Center Drive, Vienna, Virginia 22182-2285, telephone number (703) 448-8700.

IN CONNECTION WITH THIS OFFERING, CERTAIN UNDERWRITERS AND SELLING GROUP MEMBERS MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE COMMON STOCK ON THE NASDAQ NATIONAL MARKET IN ACCORDANCE WITH RULE 10b-6A UNDER THE EXCHANGE ACT. SEE "UNDERWRITERS."

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.



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Welcome, MrGolden!

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(Reuters) - The President at a recent briefing. Thanks to Westwood One Radio for bringing Mr. Clinton on AOL!

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Financial Statements
Detailed balance sheets, income statements and cash flow statements.

Earnings & Estimates
Company earnings performance, plus Wall Street's outlook for the future.

Edgar 10K's & 10Q's
Electronic EDGAR filings from the SEC, both annual 10K's and quarterly 10Q's.

Historical Stock Quotes
PREVIEW: Quotes, charts and downloadable files of historical stock performance.

Übersicht

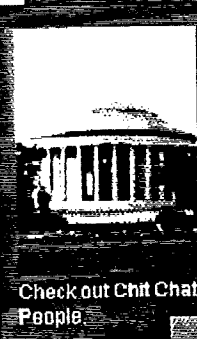
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The Ultimate Game Machine...

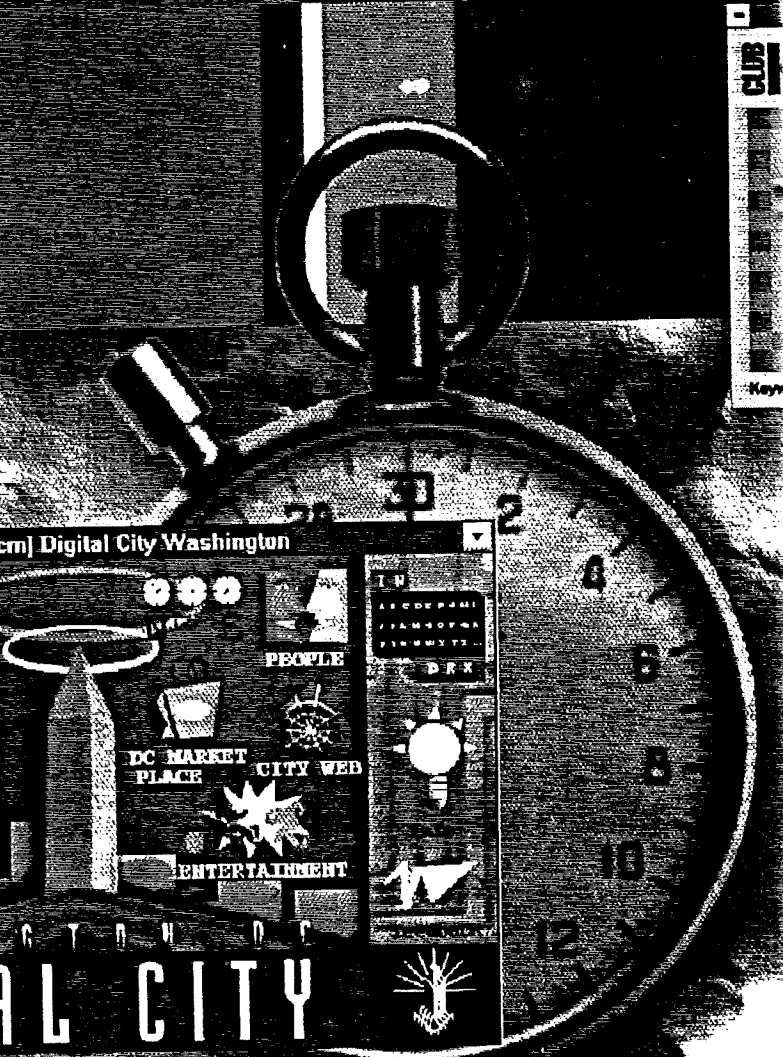
Check out this month's cover story and learn how two guys met the challenge to build the Ultimate Game Machine

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MAIN MENU



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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information, including "Risk Factors", and consolidated financial statements, including the notes thereto, appearing elsewhere in this Prospectus or incorporated by reference herein. All information set forth herein has been adjusted to reflect a two-for-one stock split in November 1994 and a two-for-one stock split in April 1995. Except as otherwise specified, all information presented in this Prospectus assumes no exercise of the Underwriters' over-allotment option.

THE COMPANY

America Online, Inc. ("America Online" or the "Company") offers the largest consumer online service in the United States, serving more than 3.5 million members at the beginning of September 1995. The Company is a leader in the development of a new mass medium that encompasses online services, the Internet, multimedia and other interactive technologies. In addition to its America Online service, the Company's business has expanded over the last year to include access software for the Internet, production and distribution of original content, interactive marketing and transactions capabilities, and networks to support the transmission of data. The Company generates revenues principally from consumers through membership fees, as well as from content providers and merchandisers through advertising, commissions on merchandise sales and other transactions, and from other businesses through the sale of network and production services. Through the combination of continued investment in the growth of its existing online service, the pursuit of related business opportunities, its ability to provide a full range of interactive services and its technological flexibility, the Company believes it is uniquely positioned to lead the development of the evolving mass medium for interactive services.

Through its America Online service, the Company offers its members a broad range of features including e-mail, online conferences, entertainment, software, computing support, an extensive "newsstand" of electronic magazines and newspapers, seamless access to the Internet, a broad array of original programming and informative content from more than 350 partners. The Company focuses on maximizing the interactive nature of its service by encouraging members to share information and ideas and to customize the service to best suit their individual needs. America Online is also preparing to offer online services internationally. The Company has entered into a joint venture with Bertelsmann AG ("Bertelsmann"), one of the world's largest media companies, to offer online services in Europe, and also intends to pursue expansion in Japan and Canada.

Over the past fiscal year, America Online, through acquisitions and internal development, has developed vertically integrated product and service offerings for users of the Internet. In the Fall of 1995, the Company plans to introduce GNN, a full-featured, stand-alone Internet access service for consumers. To address the evolving enterprise market for Internet services, the Company acquired several companies, including, in November 1994, NaviSoft, Inc. ("NaviSoft"), which has developed a collection of client/server products and services, and, in February 1995, Advanced Network & Services, Inc. ("ANS"), which delivers high quality Internet, wide-area network and virtual private data network services. The ANS network infrastructure is also expected to serve as a primary provider to AOLnet, the data communication network which the Company is building to increase network capacity, provide higher speed access and reduce telecommunications costs.

The Company recognizes the strategic importance of providing engaging content and services. As a result, it has acquired or developed a number of authoring and production tools to assist individuals and businesses in developing content for the America Online service and the Internet, and has started its own initiatives for content development. In May 1995, the Company acquired Medior, Inc. ("Medior"), a multimedia production studio that can handle all aspects of interactive content and design for advertisers and the Company's media partners. The Company has also co-founded 2Market Inc., which offers a hybrid CD-ROM and online-based interactive shopping service, and created the America Online Greenhouse, a program to fund and otherwise support the creation of online interactive content by entrepreneurs.

America Online was incorporated in Delaware on May 24, 1985. The Company's principal executive offices are located at 8619 Westwood Center Drive, Vienna, Virginia 22182-2285. Its telephone number at that address is (703) 448-8700. Its Internet address is amerir@aol.com, and its America Online address is AMER IR.

THE OFFERING

Common Stock offered:

United States offering	2,800,000 shares
International offering	700,000 shares
Total	3,500,000 shares, including 1,963,740 shares to be offered by the Company and 1,536,260 shares to be offered by the Selling Shareholders.

Common Stock outstanding after the offering 39,809,567 shares(1)

Use of proceeds For general corporate purposes, including possible acquisitions. The Company will not receive any proceeds from the sale of shares by the Selling Shareholders.

Nasdaq National Market Symbol AMER

(1) Based on the number of shares of common stock outstanding as of September 11, 1995. Excludes 21,788,997 shares of Common Stock reserved for issuance upon exercise of options and warrants outstanding as of August 10, 1995.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA (in thousands, except per share data)

	Year Ended June 30,				
	1995	1994	1993	1992	1991
Statement of Operations Data:					
Online service revenues	\$358,498	\$100,993	\$38,462	\$26,226	\$19,515
Other revenues	35,792	14,729	13,522	12,527	10,646
Total revenues	394,290	115,722	51,984	38,753	30,161
Income (loss) from operations	(19,294)	4,608	1,925	3,685	1,341
Income (loss) before extraordinary item	(33,647)	2,550	399	2,344	1,100
Net income (loss) (1)	(33,647)	2,550	1,532	3,768	1,761
Income (loss) per common share:					
Income (loss) before extraordinary item	\$ (0.99)	\$ 0.07	\$ 0.01	\$ 0.10	\$ 0.06
Net income (loss)	\$ (0.99)	\$ 0.07	\$ 0.05	\$ 0.17	\$ 0.09
Weighted average shares outstanding	33,986	34,208	29,286	22,828	19,304
	As of June 30,				
	1995	1994	1993	1992	1991
Balance Sheet Data:					
Working capital (deficiency)	\$ (456)	\$ 47,890	\$10,498	\$12,363	\$ (966)
Total assets	406,464	154,584	39,279	31,144	11,534
Total debt	21,810	9,302	2,959	2,672	1,865
Stockholders' equity (deficiency)	217,944	98,297	23,785	21,611	(8,623)
Other Data (at fiscal year end):					
Subscribers	3,005	903	303	182	131

(1) Net loss in the fiscal year ended June 30, 1995 includes charges of \$50.3 million for acquired research and development and \$2.2 million for merger expenses. See Note 3 of the Notes to Consolidated Financial Statements.

RISK FACTORS

The following risk factors should be considered carefully in connection with the information provided elsewhere in this Prospectus in evaluating the investment in the Shares offered hereby.

Competition

The online services market is highly competitive. Major direct competitors include CompuServe Incorporated ("CompuServe"), a division of H&R Block, Inc. and Prodigy Services Company ("Prodigy"), a joint venture of International Business Machines Corp. ("IBM") and Sears, Roebuck and Co. Additional online competitors include e-World, a service of Apple Computer, Inc.; GENie, a division of General Electric Information Services; Delphi Internet Services Corporation, a division of News Corp. and Interchange, a service of AT&T Corp. ("AT&T"). Given the Company's entrance into the Internet services market, it will compete with companies that provide access to the Internet, such as NETCOM On-Line Communication Services, Inc., Bolt, Beranek & Newman Inc. ("BBN"), Performance Systems International, and UUNET Technologies with Internet MCI, a service of MCI Telecommunications Corporation ("MCI") and with Internet client/server software vendors such as Netscape Communications Corporation and Spyglass, Inc., as well as with providers of Internet publishing tools. In addition, an increasing number of publishing, broadcasting and other media and technology companies are expected to enter into the interactive services market in order to leverage their investments in content and programming. Regional telephone operating companies, long distance carriers in addition to AT&T and MCI, and cable companies may also enter the market. Many of the direct competitors and possible future competitors named above have significantly greater financial, technical, marketing and personnel resources than the Company.

Microsoft Corp. ("Microsoft") has recently launched its online service under the name Microsoft Network ("MSN"). Microsoft's position as the leading personal computer software company may give MSN certain competitive advantages, including distribution and marketing synergies and the ability to attract content. Management believes that MSN may enjoy a cost advantage relative to other online services, including the Company's, in terms of distribution through original equipment manufacturers of personal computers ("OEMs") as the MSN software is "bundled" or included as part of Microsoft's Windows 95 operating system. Other online services, including the Company's, must make payments to OEMs to have their software pre-loaded onto new PCs. It is unclear whether Microsoft incurs any costs for the distribution of MSN through the OEM channel.

Increased competition could require price reductions and increased spending on marketing and product development, limit the Company's opportunities to enter into and/or renew agreements with content providers and distribution partners, limit its ability to develop new products and services, limit its ability to continue to grow its subscriber bases and result in increased attrition in the Company's membership. Any of these events could have a material adverse effect on the Company's financial condition and operating results.

Network Capacity and Operations

Due to the rapid growth in subscriber demand, the Company and its data communications access providers have experienced difficulty at certain times in providing adequate server and network capacity. As a result, members have from time to time encountered difficulty in accessing and using the America Online service. There can be no assurance that the Company will be able to expand server and network capacity at a rate sufficient to satisfy increasing subscriber demands, and the failure to do so could have a material adverse effect on the Company's business. The Company currently relies on several companies, particularly U.S. Sprint, to provide data communications access to its service. Any damage or failure that causes interruptions in U.S. Sprint's operations could have a material adverse effect on the Company's business.

The Company has launched a TCP/IP-based, dial-up network, called AOLnet, in order to increase capacity, provide higher speed access and reduce its telecommunications costs. The Company will rely on U.S. Sprint and others, as well as its ANS subsidiary, to build out this network. Any failure on the part of U.S. Sprint or other providers could materially affect the AOLnet buildout. There can be no assurance that the

Company will be able to obtain the necessary financing or be successful in building out AOLnet or that demand will develop for the capacity it will provide.

The Company's operations are dependent on its ability to protect its computer equipment and the information stored in its data centers against damage by fire, power loss, telecommunications failures, unauthorized intrusion and other events. The Company believes it has taken prudent measures to reduce the risk of interruption in its operations. However, there can be no assurance that these measures are sufficient. Any damage or failure that causes interruptions in the Company's operations could have a material adverse effect on its business. While the Company carries property and business interruption insurance to cover its computer operations, the coverage may not be adequate to compensate for losses that may occur.

Pressures on Operating Margins

One of the Company's goals is to increase market share by rapidly growing its subscriber base. To achieve this goal, the Company has aggressively promoted its service offerings and has implemented pricing changes and other strategies designed to facilitate subscriber growth. The costs associated with the rapid growth in its subscriber base and investments in customer support have placed and will continue to place pressures on the Company's operating margins. In addition, the buildout of AOLnet is expected to place pressures on the Company's operating margins.

As part of its marketing strategy, the Company provides new subscribers with up to ten hours of access to its online service on a trial basis at no charge and waives the first month's membership fees. In a period of rapid subscriber growth, the Company incurs significant data communications charges in the first month of a subscriber's membership which do not generate corresponding service revenues. In addition, new subscribers generally require substantially more customer support than longer-standing subscribers. This results in higher labor and long-distance telephone costs to the Company as well as investments in customer support infrastructure. At the same time, the Company is building its own data communications network, AOLnet, to complement its existing network carriers. During the buildout of AOLnet, the Company will experience cost inefficiencies as it switches its members over to what it anticipates will be the lower cost AOLnet services.

The Company may adopt additional strategies designed to continue the growth in its subscriber base, such as new marketing programs and promotional offers and implementation of new pricing programs. Such strategies may result in an increase in costs as a percentage of revenues. In addition, an acceleration in the growth of its subscriber base, changes in usage patterns among members or continuing investments in content may also increase costs as a percentage of revenues. As a result, the Company does not believe its operating margins have stabilized. There can be no assurance that the Company's operating margins will not be adversely affected in the future by such strategies or other conditions.

Managing a Changing Business

The Company continues to experience major changes in its operations resulting from rapid expansion of its business and other factors which have placed significant demands on its administrative, operational and financial resources. The Company's future performance will depend in part on its ability to manage its growth and to adapt its administrative, operational and financial control systems to the needs of the expanded entity. The failure of management to anticipate, respond to and manage changing business conditions could have a material adverse effect on the Company's business and results of operations.

Access to Content Providers

As competition in the online services market intensifies, it may become more difficult or expensive to secure and retain content and/or content providers. The Company generally pays royalties to its content providers under short-term renewable agreements. While no single content provider accounts for more than one percent of usage of the Company's America Online service, and the Company does not believe that any single content provider is material to its operations, there can be no assurance that the loss of a number of content providers or significantly increased costs to maintain certain content providers would not have a material adverse effect on the Company's business.

Acquisitions

Since the beginning of fiscal 1995, the Company has acquired BookLink Technologies, Inc. ("BookLink"), Redgate Communications Corporation ("RCC"), ANS, NaviSoft, Medior, Wide Area Information Servers, Inc. ("WAIS"), Global Network Navigator, Inc. and Ubique, Ltd. ("Ubique"). Acquisitions which the Company makes involve risks, including the successful integration and management of acquired technology, operations and personnel. The integration of acquired businesses may also lead to the loss of key employees of the acquired companies and diversion of management attention from other ongoing business concerns. In addition, acquisitions may result in significant charges for in-process research and development or other matters. In particular, subject to the results of an in-process valuation, a substantial portion of the approximately \$15 million purchase price (\$1.5 million in cash and \$13.5 million in common stock) for Ubique may be allocated to in-process research and development and charged to the Company's operations in the first quarter of fiscal 1996. Any of these factors could have a material adverse effect on the Company's business or financial condition.

New Businesses

The Company pursues new products and services to diversify its sources of revenue and leverage its technological and other competencies. There can be no assurance that the Company will be able to successfully develop, or achieve commercial acceptance for, these new products and services.

The Company has announced plans to introduce a direct Internet access service. While the Company believes customers for the new Internet service will be complementary to its existing subscriber base, there can be no assurance that the new service will not compete for customers with the Company's America Online service. In addition, there can be no assurance that the service will be free from software error, will perform satisfactorily when deployed to meet customer demand or will be competitive with existing Internet service providers.

The Company plans to offer online services internationally. There can be no assurance that the Company or its partners will be able to successfully market, sell and deliver its services in these markets. In addition, there are certain risks inherent in doing business on an international level, such as unexpected changes in regulatory requirements, export restrictions, export controls relating to encryption technology, tariffs and other trade barriers, fluctuations in currency exchange rates, issues regarding intellectual property and potentially adverse tax consequences, any or all of which could impact the Company's international operations.

The Company has begun to offer tools and services to enterprises seeking to use the America Online service and the Internet as a medium for communications and commerce. The market for products and services for commercial use of online services and the Internet has only recently begun to develop, is rapidly evolving, and is characterized by an increasing number of competitors. Demand for and market acceptance of new products and services are subject to a high degree of uncertainty. Moreover, critical issues concerning commercial activities via the Internet, including security, reliability, cost, ease of use and access, remain unresolved and may impact the growth of the enterprise market.

Changing Technologies

As online services evolve, the Company may be required to offer technological advances such as improved data compression and delivery of voice and full-motion video. Currently, online services are accessed primarily by personal computers via modem. If online services become accessible by screen-based telephones, television or other consumer electronic devices, or become commercially deliverable over other wired conduits such as coaxial and fiber optic cable, the Company may have to develop new technology or modify its existing technology to keep pace with these developments. Pursuit of these technological advances will require substantial expenditures, and there can be no assurance that the Company will succeed in adapting its online service business to alternate access devices and conduits.

Government Regulation and Legal Uncertainties

In the United States, the Company is not currently subject to direct regulation other than federal and state regulation applicable to businesses generally. However, changes in the regulatory environment relating to the telecommunications and media industry could have an effect on the Company's business. Additionally, legislative proposals from international, federal and state government bodies in the areas of content regulation, intellectual property, privacy rights and state tax issues, could impose additional regulations and obligations upon all online service providers. The Company cannot predict the likelihood that any such legislation will pass, nor the financial impact, if any, the resulting regulation may have.

Moreover, the applicability to online service and Internet access providers of existing laws governing issues such as intellectual property ownership, libel and personal privacy is uncertain. Recent events relating to the use of online services for illegal activities has increased public focus and could lead to increased pressure on legislatures to impose regulations on online service providers such as the Company. The law relating to the liability of online service companies and Internet access providers for information carried on or disseminated through their systems is currently unsettled and has been the subject of several recent private lawsuits. If similar actions were to be initiated against the Company, costs incurred as a result of such actions could have a material adverse effect on the Company's business.

Reliance on Key Personnel

The Company's success depends in part upon the performance of its executive officers and other key employees. The loss of the services of one or more of its key personnel could have a material adverse effect on the Company. The Company depends on its continued ability to attract and retain highly skilled and qualified personnel. Competition for such personnel is intense, and there can be no assurance that the Company will be successful in attracting and retaining such personnel.

Volatility of Share Price

The market price of the Company's Common Stock has a history of volatility. Factors such as quarterly variations in financial results and membership growth and usage, new pricing strategies, the announcement of technological innovations, mergers, acquisitions, strategic partnerships or new product offerings by the Company or its competitors, the entrance of new competitors into the online services market and changes in content providers may have a significant impact on the market price of the Common Stock. Moreover, the Common Stock could experience price volatility based on market conditions. In particular, a substantial short interest exists in the Company's Common Stock which may tend to exacerbate volatility.

Future Sales of Common Stock

Sales of substantial amounts of Common Stock in the public market could adversely affect prevailing market prices of the Common Stock. As of August 31, 1995, holders of approximately 5 million shares of America Online Common Stock (outstanding or issuable upon exercise of certain rights) have rights to require registration of their shares for resale. Additional shares are subject to registration statements on Form S-8 in connection with the Company's stock option plans. The sales of any of the foregoing shares could have a material adverse effect on the then-prevailing market price of Common Stock.

Anti-Takeover Defense Provisions

The Company's Restated Certificate of Incorporation and Restated By-laws contain certain provisions that could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company. Certain of such provisions allow the Company to issue preferred stock with rights senior to those of its Common Stock and impose various procedural and other requirements which could make it more difficult for stockholders to effect certain corporate actions. In addition, the Company has a stockholder rights plan pursuant to which holders of Common Stock are entitled to one preferred share purchase right for each outstanding share of Common Stock they hold, exercisable under certain defined circumstances involving a potential change of control. The foregoing provisions could limit the price that certain investors might be willing to pay in the future for shares of Common Stock.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 1,963,740 shares of Common Stock offered by the Company hereby are estimated to be \$136,564,407 (\$173,168,063 if the underwriters' over-allotment option is exercised in full), assuming a public offering price of \$72.25 per share and after deducting underwriters' commissions and expenses payable by the Company. The Company intends to use the net proceeds (i) to finance subscriber acquisition and retention programs, advertising and distribution channels; (ii) for capital and operating expenditures related to network and infrastructure expansion; (iii) to finance continued investments in entities developing original interactive content; (iv) to fund expansion into new business areas including the launch of GNN, international expansion, the development of enterprise business and new initiatives to promote interactive advertising, sales of merchandise and other online transactions; and (v) for other general corporate purposes. A portion of the net offering proceeds may be used for acquisitions of technologies, products or businesses complementary to the Company's current business. The Company regularly engages in discussions to explore acquisition opportunities. The Company currently has no agreements or understandings to acquire any businesses. Pending utilization of the net proceeds from this offering, the Company intends to invest them in short-term, income generating, investment grade securities. The Company will not receive any proceeds from the sale of Shares of Common Stock offered by the Selling Stockholders.

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is traded on the Nasdaq National Market under the symbol "AMER." The following chart sets forth the high and low sale prices for the Common Stock during the indicated periods:

	<u>High</u>	<u>Low</u>
Year Ended June 30, 1994:		
First Quarter	\$15.19	\$ 9.13
Second Quarter	17.50	12.63
Third Quarter	23.00	11.94
Fourth Quarter	19.44	12.56
Year Ended June 30, 1995:		
First Quarter	20.56	13.75
Second Quarter	29.25	14.94
Third Quarter	47.38	24.63
Fourth Quarter	48.13	33.50
Year Ended June 30, 1996:		
First Quarter (through September 21, 1995)	74.50	50.00

On September 21, 1995, the closing price per share for the Common Stock was \$72.25. As of August 31, 1995, there were approximately 1,117 holders of record of the Common Stock.

DIVIDEND POLICY

The Company has never declared, nor has it paid, any cash dividends on its Common Stock. The Company currently intends to retain its earnings to finance future growth and, therefore, does not anticipate paying any cash dividends on its Common Stock in the foreseeable future.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of June 30, 1995 and as adjusted to give effect to the sale by the Company of 1,963,740 shares of Common Stock offered hereby (at an assumed public offering price of \$72.25 per share) and after deducting the underwriting discounts and commissions and estimated expenses and the application of the estimated net proceeds therefrom as described under "Use of Proceeds."

	June 30, 1995	
	Actual	As Adjusted
	(in thousands)	
Notes payable and Capital lease obligations, less current portion	\$ 19,496	\$ 19,496
Stockholders' equity:		
Preferred stock, \$.01 par value; 5,000,000 shares authorized; none issued	—	—
Common stock, \$.01 par value; 100,000,000 shares authorized; 37,554,849		
shares issued and outstanding; 39,518,589 outstanding, as adjusted(1)	375	395
Additional paid-in capital	251,539	388,084
Accumulated deficit	(33,970)	(33,970)
Total stockholders' equity	217,944	354,509
Total capitalization	<u>\$237,440</u>	<u>\$374,005</u>

- (1) Excludes an aggregate of 21,642,803 shares of Common Stock reserved for issuance upon exercise of options and warrants outstanding as of June 30, 1995.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected financial data for the five years in the period ended June 30, 1995 are derived from the consolidated financial statements of the Company, which have been audited by Ernst & Young LLP, independent auditors. The Company's consolidated financial statements as of June 30, 1995 and June 30, 1994, and for each of the three years in the period ended June 30, 1995, including the notes thereto, are included elsewhere in this Prospectus. The information set forth below should be read in conjunction with the Company's consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

	Year Ended June 30,				
	1995	1994	1993	1992	1991
	(in thousands, except per share data)				
Statement of Operations Data:					
Online service revenues	\$358,498	\$100,993	\$38,462	\$26,226	\$19,515
Other revenues	<u>35,792</u>	<u>14,729</u>	<u>13,522</u>	<u>12,527</u>	<u>10,646</u>
Total revenues	394,290	115,722	51,984	38,753	30,161
Income (loss) from operations	(19,294)	4,608	1,925	3,685	1,341
Income (loss) before extraordinary item	(33,647)	2,550	399	2,344	1,100
Net income (loss) (1)	<u>(33,647)</u>	<u>2,550</u>	<u>1,532</u>	<u>3,768</u>	<u>1,761</u>
Income (loss) per common share:					
Income (loss) before extraordinary item	\$ (0.99)	\$ 0.07	\$ 0.01	\$ 0.10	\$ 0.06
Net income (loss)	<u>\$ (0.99)</u>	<u>\$ 0.07</u>	<u>\$ 0.05</u>	<u>\$ 0.17</u>	<u>\$ 0.09</u>
Weighted average shares outstanding	33,986	34,208	29,286	22,828	19,304
	As of June 30,				
	1995	1994	1993	1992	1991
	(in thousands)				
Balance Sheet Data:					
Working capital (deficiency)	\$ (456)	\$ 47,890	\$10,498	\$12,363	\$ (966)
Total assets	406,464	154,584	39,279	31,144	11,534
Total debt	21,810	9,302	2,959	2,672	1,865
Stockholders' equity (deficiency)	217,944	98,297	23,785	21,611	(8,623)
Other Data (at fiscal year end):					
Subscribers	3,005	903	303	182	131

- (1) Net loss in the fiscal year ended June 30, 1995 includes charges of \$50.3 million for acquired research and development and \$2.2 million for merger expenses. See Note 3 of the Notes to Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company has experienced a significant increase in revenues over the past three fiscal years. The higher revenues have been principally produced by increases in the Company's subscriber base resulting from growth of the online services market, the introduction of a Windows version of America Online in the middle of fiscal 1993, which greatly increased the available market for the Company's service, as well as the expansion of its services and content. Additionally, revenues have increased as the average monthly revenue per subscriber has risen steadily during the past three years, primarily as a result of an increase in the average monthly paid hours of use per subscriber.

The Company's online service revenues are generated primarily from subscribers paying a monthly membership fee and hourly charges based on usage in excess of the number of hours of usage provided as part of the monthly fee. Through December 31, 1994, the Company's standard monthly membership fee, which includes five hours of service, was \$9.95, with a \$3.50 hourly fee for usage in excess of five hours per month. Effective January 1, 1995, the hourly fee for usage in excess of five hours per month decreased from \$3.50 to \$2.95, while the monthly membership fee remained unchanged at \$9.95.

The Company's other revenues are generated primarily from providing new media and interactive marketing services, data network services, and multimedia and CD-ROM production services. Additionally, the Company generates revenues related to online transactions and advertising, as well as development and licensing fees.

In fiscal 1995, the Company acquired RCC, NaviSoft, BookLink, ANS, WAIS, Medior and Global Network Navigator, Inc. Additionally, in September 1995, the Company acquired Ubique. For additional information relating to these acquisitions, refer to Notes 3 and 13 of the Notes to Consolidated Financial Statements.

The online services market is highly competitive. The Company believes that existing competitors, which include, among others, CompuServe, Prodigy and MSN, are likely to enhance their service offerings. In addition, new competitors have announced plans to enter the online services market, resulting in greater competition for the Company. The competitive environment could require new pricing programs and increased spending on marketing, content procurement and product development; limit the Company's opportunities to enter into and/or renew agreements with content providers and distribution partners; limit the Company's ability to grow its subscriber base; and result in increased attrition in the Company's subscriber base. Any of the foregoing events could result in an increase in costs as a percentage of revenues, and may have a material adverse effect on the Company's financial condition and operating results.

During September 1995, the Company modified the components of subscriber acquisition costs deferred and will be expensing certain subscriber acquisition costs as incurred, effective July 1, 1995. All costs capitalized before this change will continue to be amortized. The effect of this change for the year ended June 30, 1995 (including the amortization of amounts capitalized as of June 30, 1994) would have been to increase marketing costs by approximately \$8 million. This change will have a greater impact on the Company's marketing costs in fiscal 1996, as the Company expects to significantly increase subscriber acquisition activity, including those subscriber acquisition expenditures which the Company will be expensing as incurred.

In addition, effective July 1, 1995, the Company changed the period over which it amortizes subscriber acquisition costs from twelve and eighteen months to twenty-four months. Based on the Company's historical average customer life experience, the change in amortization period is being made to more appropriately match subscriber acquisition costs with associated online service revenues. The effect of this change in accounting estimate for the year ended June 30, 1995 would have been to decrease the amount of the amortization of subscriber acquisition costs by approximately \$27 million. While this change will positively impact operating margins, the Company expects that any such positive impact will be partially offset

by increased investments in marketing and other business activities during fiscal 1996 and the decision, effective July 1, 1995, to expense certain subscriber acquisition costs as incurred.

Results of Operations

Fiscal 1995 Compared to Fiscal 1994

Online Service Revenues. For fiscal 1995, online service revenues increased from \$100,993,000 to \$358,498,000, or 255%, over fiscal 1994. This increase was primarily attributable to a 289% increase in revenues from IBM-compatible subscribers and a 196% increase in revenues from Macintosh subscribers as a result of a 273% increase in the number of IBM-compatible subscribers and a 143% increase in the number of Macintosh subscribers. The percentage increase in online service revenues in fiscal 1995 was greater than the percentage increase in subscribers principally due to an increase in the average monthly online service revenue per subscriber, which increased from \$15.00 in fiscal 1994 to \$17.10 in fiscal 1995.

Other Revenues. Other revenues, consisting principally of new media and interactive marketing services, data network services, multimedia and CD-ROM production services, and development and licensing fees, increased from \$14,729,000 in fiscal 1994 to \$35,792,000 in fiscal 1995. This increase was primarily attributable to data network revenues and multimedia and CD-ROM production service revenues from companies acquired during fiscal 1995.

Cost of Revenues. Cost of revenues includes network-related costs, consisting primarily of data and voice communication costs, costs associated with operating the data center and providing customer support, royalties paid to information and service providers and other expenses related to marketing and production services. For fiscal 1995, cost of revenues increased from \$69,043,000 to \$229,724,000, or 233%, over fiscal 1994, and decreased as a percentage of total revenues from 59.7% to 58.3%.

The increase in cost of revenues was primarily attributable to an increase in data communication costs, customer support costs and royalties paid to information and service providers. Data communication costs increased primarily as a result of the larger customer base and more usage by customers. Customer support costs, which include personnel and telephone costs associated with providing customer support, were higher as a result of the larger customer base and a large number of new subscriber registrations. Royalties paid to information and service providers increased as a result of a larger customer base and more usage and the Company's addition of more service content to broaden the appeal of the America Online service.

The decrease in cost of revenues as a percentage of total revenues is primarily attributable to a decrease in expenses related to marketing services and personnel related costs as a percentage of total revenues, partially offset by an increase in data communication costs as a percentage of total revenues, primarily resulting from an increase in higher baud speed usage at a higher variable rate as well as lower hourly pricing for online service revenue which became effective January 1, 1995.

Marketing. Marketing expenses include the costs to acquire and retain subscribers and other general marketing expenses. Subscriber acquisition costs are deferred and charged to operations over a twelve or eighteen month period, using the straight-line method, beginning the month after such costs are incurred. For additional information regarding the accounting for deferred subscriber acquisition costs, refer to Note 2 of the Notes to Consolidated Financial Statements. For fiscal 1995, marketing expenses increased from \$23,548,000 to \$77,064,000, or 227%, over fiscal 1994, and decreased as a percentage of total revenues from 20.3% to 19.5%. The increase in marketing expenses was primarily due to an increase in the number and size of marketing programs to expand the Company's subscriber base. The decrease in marketing expenses as a percentage of total revenues is primarily attributable to a decrease as a percentage of total revenues in personnel related costs.

Product Development. Product development costs include research and development expenses, other product development costs and the amortization of software costs. For fiscal 1995, product development expenses increased from \$4,961,000 to \$12,842,000, or 159%, over fiscal 1994, and decreased as a percentage of total revenues from 4.3% to 3.3%. The increase in product development costs was primarily attributable to an increase in personnel costs related to an increase in the number of technical employees. The decrease in

product development costs as a percentage of total revenues was principally a result of the substantial growth in revenues, which more than offset the additional product development costs. Product development costs, before capitalization and amortization, increased by 126% for fiscal 1995.

General and Administrative. For fiscal 1995, general and administrative costs increased from \$13,562,000 to \$41,966,000, or 209%, over fiscal 1994, and decreased as a percentage of total revenues from 11.7% to 10.6%. The increase in general and administrative expenses was principally attributable to higher office and personnel expenses related to an increase in the number of employees. The decrease in general and administrative costs as a percentage of total revenues was a result of the substantial growth in revenues, which more than offset the additional general and administrative costs, combined with the semi-variable nature of many of the general and administrative costs.

Acquired Research and Development. Acquired research and development costs, totaling \$50,335,000, relate to in-process research and development purchased pursuant to the Company's acquisitions of two early-stage Internet technology companies, BookLink and NaviSoft. The purchased research and development relating to the BookLink and NaviSoft acquisitions was the foundation of the development of the Company's Internet related products.

Amortization of Goodwill. Amortization of goodwill relates to the Company's acquisition of ANS, which resulted in approximately \$44 million in goodwill. The goodwill related to the ANS acquisition is being amortized on a straight-line basis over a ten year period.

Other Income. Other income consists primarily of investment and rental income net of interest expense. For fiscal 1995, other income increased from \$1,774,000 to \$3,023,000. This increase was primarily attributable to an increase in interest income generated by higher levels of cash available for investment, partially offset by a decrease in rental income and an increase in interest expense.

Merger Expenses. Non-recurring merger expenses totaling \$2,207,000 were recognized in fiscal 1995 in connection with the mergers of the Company with RCC, WAIS and Medior.

Provision for Income Taxes. The provision for income taxes was \$3,832,000 and \$15,169,000 in fiscal 1994 and fiscal 1995, respectively. For additional information regarding income taxes, refer to Note 9 of the Notes to Consolidated Financial Statements.

Net Loss. The net loss in fiscal 1995 totaled \$33,647,000. The net loss in fiscal 1995 included charges of \$50,335,000 for acquired research and development and \$2,207,000 for merger expenses.

Fiscal 1994 Compared to Fiscal 1993

Online Service Revenues. For fiscal 1994, online service revenues increased from \$38,462,000 to \$100,993,000, or 163%, over fiscal 1993. This increase was primarily attributable to a 198% increase in revenues from IBM-compatible subscribers and a 145% increase in revenues from Macintosh subscribers as a result of a 230% increase in the number of IBM-compatible subscribers and a 174% increase in the number of Macintosh subscribers. The percentage increase in subscribers in fiscal 1994 was greater than the percentage increase in online service revenues due to the timing, during the year, of when subscribers were added. The majority of subscribers were added during the second half of the year, therefore there was not a full year impact on revenues. This was partially offset by an increase in average monthly net service revenue per subscriber, which increased from \$14.20 in fiscal 1993 to \$15.00 in fiscal 1994.

Other Revenues. Other revenues, consisting primarily of new media and interactive marketing services and development fees, increased from \$13,522,000 in fiscal 1993 to \$14,729,000 in fiscal 1994.

Cost of Revenues. For fiscal 1994, cost of revenues increased from \$28,820,000 to \$69,043,000, or 140%, over fiscal 1993, and increased as a percentage of total revenues from 55.4% to 59.7%.

The increase in cost of revenues was primarily attributable to an increase in data communication costs, customer support costs and royalties paid to information and service providers. Data communication costs increased primarily as a result of the larger customer base and more usage by customers. Customer support

costs, which include personnel and telephone costs associated with providing customer support, were higher as a result of the larger customer base and a large number of new subscriber registrations. Royalties paid to information and service providers increased as a result of a larger customer base and more usage and the Company adding more service content to broaden the appeal of the America Online service.

The increase in cost of revenues as a percentage of total revenues is primarily attributable to data communication costs and is associated with (i) an increase in no-charge trial hours as a result of the high number of new subscriber registrations relative to the existing customer base; (ii) a higher percentage of usage during more costly daytime periods partially offset by more favorable pricing under an agreement with the Company's primary communications provider; and (iii) an increase in usage relative to net service revenues as a result of the introduction of a price change in May 1993. The increase attributable to data communications costs was partially offset by a decrease as a percentage of total revenues in production costs related to marketing services. The Company introduced a price change in the spring of 1993. Prior thereto, the Company's standard pricing was a monthly membership fee of \$7.95 which included two hours of use each month, with five no-charge trial hours and no membership fee in the first month. Additional usage beyond that included with the membership was charged at \$6.00 per hour. Effective May 1, 1993, the Company increased the monthly membership fee to \$9.95 and increased the number of hours included to five per month. Additionally, the number of no-charge trial hours in the first month of membership was increased from five to ten. Effective July 1, 1993, the hourly fee for usage beyond that included with the membership was lowered to \$3.50.

Marketing. For fiscal 1994, marketing expenses increased from \$9,745,000 to \$23,548,000, or 142%, over fiscal 1993, and increased as a percentage of total revenues from 18.7% to 20.3%. The increase in marketing expenses was primarily due to an increase in the number and size of marketing programs to expand the Company's America Online subscriber base. In addition, personnel costs were higher to support the number and size of marketing programs.

Product Development. For fiscal 1994, product development costs increased from \$2,913,000 to \$4,961,000, or 70%, over fiscal 1993, and decreased as a percentage of total revenues from 5.6% to 4.3%. The increase in product development costs was attributable to an increase in personnel costs related to an increase in the number of employees. The decrease in product development costs as a percentage of total revenues was a result of the substantial growth in revenues for the year, which more than offset the additional product development costs. Product development costs, before capitalization and amortization, increased by 103% in fiscal 1994.

General and Administrative. For fiscal 1994, general and administrative expenses increased from \$8,581,000 to \$13,562,000, or 58%, over fiscal 1993, and decreased as a percentage of total revenues from 16.5% to 11.7%. The increase in general and administrative costs was principally attributable to higher personnel, office and travel expenses related to an increase in the number of employees. The decrease in general and administrative costs as a percentage of total revenues was a result of the substantial growth in revenues for the year combined with the fixed nature of many of the general and administrative costs.

Other Income. For fiscal 1994, other income increased from \$371,000 to \$1,774,000. This increase was primarily attributable to an increase in interest income generated by higher levels of cash available for investment in fiscal 1994, as well as rental income received as a result of the purchase of one of the Company's office buildings and its leasing of space to third parties, which was partially offset by interest expense on the loan obtained to purchase the building.

Provision for Income Taxes. The provision for income taxes was \$1,897,000 and \$3,832,000 in fiscal 1993 and fiscal 1994, respectively. The tax provision in fiscal 1993, with the exception of \$764,000, was offset by the utilization of a net operating loss carryforward that has been reflected as an extraordinary item. For additional information regarding income taxes, refer to Note 9 of the Notes to Consolidated Financial Statements.

Net Income. Net income in fiscal 1994 totaled \$2,550,000.

Liquidity and Capital Resources

The Company has financed its operations through cash generated from operations, sale of its common stock and funding by third parties for certain product development activities. Net cash provided by operating activities was \$2,205,000, \$1,884,000 and \$15,891,000 for fiscal 1993, fiscal 1994 and fiscal 1995, respectively. Included in operating activities were expenditures for deferred subscriber acquisition costs of \$10,685,000, \$37,424,000 and \$111,761,000 in fiscal 1993, fiscal 1994 and fiscal 1995, respectively. Net cash used in investing activities was \$8,915,000, \$41,870,000 and \$85,725,000 in fiscal 1993, fiscal 1994 and fiscal 1995, respectively. Investing activities included \$20,523,000 in fiscal 1995 related to business acquisitions, substantially all of which were related to the acquisition of ANS.

In December 1993 the Company completed a public stock offering of 4,000,000 shares of common stock which generated net cash proceeds of approximately \$62.7 million.

In April 1995 the Company entered into a joint venture with Bertelsmann to offer interactive online services in Europe. In connection with the agreement, the Company received approximately \$54 million through the sale of approximately 5% of its common stock to Bertelsmann.

The Company leases the majority of its equipment under noncancelable operating leases, and as part of its network portfolio strategy is building AOLnet, its data communications network. The buildout of this network requires a substantial investment in telecommunications equipment, which the Company plans to finance principally through leasing. In addition, the Company has guaranteed minimum commitments under certain data and voice communication agreements. The Company's future lease commitments and guaranteed minimums are discussed in Note 6 of the Notes to Consolidated Financial Statements.

The Company uses its working capital to finance ongoing operations and to fund marketing and content programs and the development of its products and services. The Company plans to continue to invest aggressively in acquisition marketing and content programs to expand its subscriber base, as well as in computing and support infrastructure. Additionally, the Company expects to use a portion of its cash for the acquisition and subsequent funding of technologies, products or businesses complementary to the Company's current business. The Company has no agreements or understandings to acquire any businesses. The Company anticipates that available cash and cash provided by operating activities and the net proceeds of this offering will be sufficient to fund its operations for the next fiscal year. The Company expects to use the net proceeds of this offering to finance investments in its existing and new businesses. See "Use of Proceeds."

Various legal proceedings have arisen against the Company in the ordinary course of business. In the opinion of management, these proceedings will not have a material effect on the financial position of the Company.

The Company believes that inflation has not had a material effect on its results of operations.

On September 22, 1995, the Company acquired Ubique, an Israeli company. The Company has agreed to pay approximately \$15 million (\$1.5 million in cash and \$13.5 million in common stock) in the transaction, which is to be accounted for as a purchase. Subject to the results of an in-process valuation, a substantial portion of the purchase price may be allocated to in-process research and development and charged to the Company's operations in the first quarter of fiscal 1996.

BUSINESS

General

America Online offers the largest consumer online service in the United States, serving more than 3.5 million members at the beginning of September 1995. The Company is a leader in the development of a new mass medium that encompasses online services, the Internet, multimedia and other interactive technologies. In addition to its America Online service, the Company's business has expanded over the last year to include access software for the Internet, production and distribution of original content, interactive marketing and transactions capabilities, and networks to support the transmission of data. The Company generates revenues principally from consumers through membership fees, as well as from content providers and merchandisers through advertising, commissions on merchandise sales and other transactions, and from other businesses through the sale of network and production services. Through the combination of continued investment in the growth of its existing online service, the pursuit of related business opportunities, its ability to provide a full range of interactive services and its technological flexibility, the Company believes it is uniquely positioned to lead the development of the evolving mass medium for interactive services.

Through its America Online service, the Company offers its members a broad range of features including e-mail, online conferences, entertainment, software, computing support, an extensive "newsstand" of electronic magazines and newspapers, seamless access to the Internet, a broad array of original programming and informative content from more than 350 partners. The Company focuses on maximizing the interactive nature of its service by encouraging members to share information and ideas and to customize the service to best suit their individual needs. America Online is also preparing to offer online services internationally. The Company has entered into a joint venture with Bertelsmann, one of the world's largest media companies, to offer online services in Europe, and also intends to pursue expansion in Japan and Canada.

Over the past fiscal year, America Online, through acquisitions and internal development, has developed vertically integrated product and service offerings for users of the Internet. In the Fall of 1995, the Company plans to introduce GNN, a full-featured, stand-alone Internet access service for consumers. To address the evolving enterprise market for Internet services, the Company acquired several companies, including, in November 1994, NaviSoft, which has developed a collection of client/server products and services, and, in February 1995, ANS, which delivers high quality Internet, wide-area network and virtual private data network services. The ANS network infrastructure is also expected to serve as a primary provider to AOLnet, the data communication network which the Company is building to increase network capacity, provide higher speed access and reduce telecommunications costs.

The Company recognizes the strategic importance of providing engaging content and services. As a result, it has acquired or developed a number of authoring and production tools to assist individuals and businesses in developing content for the America Online service and the Internet, and has started its own initiatives for content development. In May 1995, the Company acquired Medior, a multimedia production studio that can handle all aspects of interactive content and design for advertisers and the Company's media partners. The Company has also co-founded 2Market Inc., which offers a hybrid CD-ROM and online-based interactive shopping service, and created the America Online Greenhouse, a program to fund and otherwise support the creation of online interactive content by entrepreneurs.

Market Evolution

America Online was among the first to offer an interactive online service targeted at the consumer market, while other providers concentrated on offering services to connect the scientific and business-to-business communities. With the evolution of interactive services, the Company now envisions consumer online services becoming the first step in the creation of a new mass medium linking online services, the Internet, multimedia and other interactive technologies. America Online believes that the development of this new medium is altering the ways in which people interact and conduct their personal and business affairs, and that as the market develops, a new business model is evolving for interactive media providers that will be characterized less by subscriber fees and more by transaction-based and advertising revenues.

While the number of users and amount of revenue for consumer online services have grown rapidly in the past several years, it is estimated that just eight percent of all households in the United States currently access online services, and even fewer regularly access the Internet. In addition, the Company believes there is a large international market for online services. America Online believes that a number of key factors will contribute to continued growth in the consumer interactive services market in the 1990's, including:

- *Growth of the Home Computer Market* — Currently, approximately 35 million households in the United States have home computers, with industry forecasts calling for this number to grow to 50 to 60 million households by 2000. Modem and CD-ROM penetration is also increasing as prices decline and as these devices are now being preinstalled in a growing percentage of new computers.

- *Growing Awareness and Use of Interactive Services and the Internet* — Use of online services is growing rapidly because of broader awareness, a burgeoning interest in the Internet and the promotional and marketing efforts of online service providers. In addition, as access speeds increase via higher-speed modems and CD-ROM drives, interactive services become easier, more productive and less expensive to use, which should lead to greater consumer acceptance.

- *Development of Easy-to-Use Services and Engaging Content* — With the introduction of multimedia interfaces and improved navigation through hyper-linked text and graphics, interactive services are becoming easier to use. In addition, as the size of the interactive services market grows, more content is being produced for this market. The Company believes that these factors will further increase the mass market appeal of its services, stimulate further growth, and create opportunities for electronic commerce.

- *New Modes of Access* — The Company believes that new technological innovations and market demands will create new platforms for its services in addition to personal computers, such as personal digital assistants ("PDAs"), interactive television systems and screen-based telephones. As additional platforms become widely available, the ease of access to interactive services for consumers will increase, which will lead to greater usage of those services.

Business Strategy

The Company's strategy is to lead the development of a new interactive medium which holds the potential to change the way people obtain information, communicate with one another, buy products and services and learn. Through the combination of its growing membership base, enhanced look and feel, and ability to program its content to appeal to users, the Company believes it is uniquely positioned to exploit the evolving mass medium for interactive services. In implementing its strategy, the Company pursues a number of initiatives:

- *Invest in Growth of Existing Service:* America Online plans to continue to invest in the rapid growth of its existing online service. The Company believes it can attract and retain new members by expanding the range of content and services it offers, continuing to improve the engaging multimedia context of its service, and building a sense of community online. At the same time, by offering access to a large, growing and demographically attractive audience, together with software tools and services to develop content and programming for that audience, the Company believes it will continue to appeal to content and service providers.

- *Exploit New Business Opportunities:* The Company intends to leverage its technology, management skills and content packaging skills to identify and exploit new business opportunities, such as the consumerization of the Internet, electronic commerce and entry into international markets.

- *Provide a Full Range of Interactive Services:* Through acquisitions and internal development, the Company has assembled content development, distribution capabilities, access software, and its own communications network to become a full service, vertically integrated, provider of interactive services. As a result the Company believes it is well positioned to influence the evolution of the interactive services market.

- *Maintain Technological Flexibility:* America Online recognizes the need to provide its services over a diverse set of platforms. Its software works on different types of personal computers and operating systems (including Macintosh, Windows 3.xx and Windows 95) and supports a variety of different media, including online services, the Internet and CD-ROM. The Company intends to adapt its products and services as new technologies become available in the future.

America Online believes that these strategies allow it to expand its sources of revenue; currently, the Company generates revenues largely from membership fees, but the Company believes that it will receive revenues in the future from other sources as well, including advertising fees, commissions on merchandise sales to consumers, and revenues from the sale of production and network services to enterprises.

Products and Services

The America Online Service

America Online, through its America Online service, offers a broad range of features designed to meet the varied needs of its members, including e-mail, conferencing, software, computing support, electronic magazines and newspapers, online classes, and Internet access. A key feature of the America Online service is the ease with which members with related interests can communicate through real-time conferences, e-mail and bulletin boards. Members use these interactive communications facilities to share information and ideas, exchange advice and socialize. It is America Online's goal to continue developing and adding new sources of information and content in support of these member activities. The range of features offered by America Online includes the following:

- *Online Community* — America Online promotes real-time online communication by scheduling conferences or discussions on specific topics. E-mail services allow members to send messages to other members' private electronic mailboxes, or to non-subscribers via fax, U.S. mail or an international e-mail gateway. Public bulletin boards allow members to share information and opinions on subjects of general or specialized interest. America Online also offers an interactive area that serves as the center or meeting place for America Online's online member community. Members enter a "lobby" or "meeting room" and are able to participate in lively interactive discussions with other members. Members can create public or private "rooms" for teleconferencing, and can send messages that will be received instantaneously, regardless of the recipient's location within the America Online service. The Company takes extensive precautions to ensure the integrity of its data storage and transmission and prevent unauthorized access to member accounts and communications. Furthermore, the Company's policy is to respect the privacy of member communications in e-mail, instant messages and private conference rooms, subject to its compliance with laws and regulations governing the storage and transmission of illegal information.

- *Computing* — America Online provides its members access to tens of thousands of public domain and "shareware" software programs that members can transfer to their own disks to keep and use. Members can get assistance from more than 300 hardware and software developers which support their products online by meeting with their customers in conferences and by answering questions posted on electronic bulletin boards. Additionally, members can access information from numerous computer magazines such as MacWorld, PC World and Computer Life, talk to editors and interact with other members, and shop for computers, peripherals and commercial software.

- *Education and Reference* — America Online's education services allow adults and children to learn without leaving their homes. The Company contracts with professional teachers to teach real-time interactive classes in subjects of both general academic interest and adult education (such as creative writing and gourmet cooking). Regular tutoring sessions are also offered to help students with subjects such as English, biology and math. In the Reference channel, an online Compton's Encyclopedia is offered which can be searched for topics of interest. Education and reference service and content providers include the Library of Congress, College Board, CNN, Smithsonian and Consumer Reports.

- *News and Personal Finance* — America Online offers a broad range of information services, including domestic and international news, weather, sports reports, stock market prices and personalized

portfolio tracking. America Online also provides a search capability which enables members to scan the news wires quickly to locate stories of interest. Subscribers can access mutual fund information through Fidelity Online and Morningstar and execute brokered trades online through PC Financial Network. Subscribers can also access an electronic newsstand of over 70 general and specialized magazines and newspapers, including The New York Times, Chicago Tribune, San Jose Mercury News, Time, Scientific American, Investors Business Daily and Reuters.

- *Travel and Shopping* — America Online offers various travel and shopping reference materials and transaction services. Subscribers can send customized greeting cards through Hallmark Connections, send flowers through 1-800-Flowers, shop for CDs and tapes online at Tower Records, book vacation packages with Preview Vacations, and access account data and travel information and services with American ExpressNet. The Company has also introduced its own interactive shopping service, 2Market, which features goods and services from numerous catalogs and retailers.

- *Entertainment and Children's Programming* — America Online provides various clubs and forums for topics such as games and sports, multi-player games and other related content for both adults and children. In addition, America Online works with various organizations to provide specialized content and areas on its service. Examples include MusicSpace, the Games Channel, Disney Adventures, Comedy Clubs, Nintendo Power Source, Kids Only, Hollywood Online, Warner-Reprise Records, American Association of Retired Persons, MTV, Cooking Club, Environmental Club and Baby Boomers Forum.

In addition to the content currently available on its online service, America Online continues to add informative content through its strategic alliances with information providers as well as through joint ventures with major media companies. To further stimulate the development of innovative and engaging new content, America Online has created the America Online Greenhouse to fund the development of new programming. In the America Online Greenhouse, the Company has typically funded the development of creative content in exchange for royalties on future revenue, exclusive rights to content for some period of time and notes convertible into a minority ownership interest in the developing entity. To date, America Online has funded the development of approximately fifteen new online content developers, including The Motley Fool, an irreverent interactive investment and personal finance channel; iGolf, a comprehensive interactive electronic golf guide; and NetNoir Online, the world's first online service dedicated to Afrocentric culture.

Marketing

The goals of the Company's marketing programs are to increase the general visibility of America Online and to make it easy for consumers to trial and subscribe to its services. America Online aggressively markets its services and products to consumers using a broad array of programs and strategies. The Company attracts new subscribers through independent marketing programs, such as direct mail, disk inserts and onsets in publications, advertising and a variety of co-marketing efforts. The Company has entered into co-marketing agreements with numerous personal computers hardware, software and peripheral production companies. These companies bundle America Online software with their products, thus facilitating easy trial use of the Company's services. The Company has also entered into co-marketing agreements with certain of its media partners and with affinity groups and associations to market directly to and cater to the needs of specific audiences.

America Online utilizes specialized retention programs designed to increase customer loyalty and satisfaction and to maximize customer subscription life. These retention programs include regularly scheduled online events and conferences; the regular addition of new content, services and software programs; and online promotions of upcoming online events and new features. The Company also provides a variety of support mechanisms such as online support and telephone customer support services. In addition, the Company expects to increase its brand awareness through, among other means, national television and radio advertising campaigns.

Internet Access and Service

America Online's goal is to "consumerize" the Internet by providing simple access to and use of the Internet for members of the America Online service and for users seeking direct access to the Internet. America Online introduced its Web browser in May 1995, which provides integrated World Wide Web access within the America Online service, and guides members to Web sites based on areas of consumer interest. The integrated approach allows the user to seamlessly use the full suite of America Online features, including chat and e-mail, while exploring the Internet, all under America Online's standard pricing structure. In addition, America Online has incorporated advanced high-speed compression technology into the browser to improve Web access speed and graphic display performance. America Online's Internet capabilities also include e-mail gateways and mailing lists, USENET Newsgroups, file transfer protocol (FTP) and WAIS and Gopher databases.

America Online's GNN service, scheduled to be launched in Fall 1995, is intended to be a stand-alone Internet-based consumer service which will package content, a highly graphical interface and services for Internet users. The GNN service will incorporate technologies acquired by the Company during the past fiscal year, including the ANS network infrastructure, BookLink browser, NaviSoft personal publishing tools, GNN user interface and WebCrawler search engine.

The Company plans to carry over expertise from its America Online service to GNN in three fundamental areas: a focus on targeting the consumer market; experience in building a scalable data communications infrastructure that can be used to provide access both to GNN and the traditional America Online services, and support of an online community. America Online plans to preserve and extend the reputation that GNN has gained with its existing Internet audience and extend its reach to consumers and major advertisers and content providers. GNN will be positioned for people who want a robust yet directed Internet experience, access to the global Internet community, and advertising and transaction opportunities as a major component of their online experience. The Company's goal is for GNN to be seen as a reliable, integrated Internet service with programming and an interface that will help make it a "front page" of the Internet.

Multimedia and CD-ROM

America Online believes that multimedia and CD-ROM technologies provide a significant strategic opportunity for the Company to develop innovative interactive marketing channels that meet the needs of members, advertisers and media partners. In May 1995, America Online acquired Medior, a leading provider of multimedia production tools and services. Medior's production studio handles all aspects of interactive content development and design, including research and development, engineering, quality assurance, design and implementation of screen interfaces, 3-D texturing and video and production services. With the acquisition of Medior, America Online intends to accelerate its role in providing content providers with enhanced multimedia publishing capabilities.

America Online, through 2Market, a company co-founded and majority-owned by America Online, offers a hybrid CD-ROM and online-based interactive shopping service that features goods and services from numerous catalogs and retailers, as well as a one-step connection to the America Online service. America Online plans to develop additional hybrid CD-ROM/online content offerings which bring together multimedia presentation and online connectivity. By combining CD-ROM products with the current multimedia capability of its online services and the Internet, America Online is able to deliver the data-intensive graphics and audio and video capabilities of CD-ROMs using narrow-band technologies. America Online continues to upgrade the multimedia capability of its services and should be well positioned to offer seamless audio and video capabilities online as true high-bandwidth connections become widely available.

Access and Delivery of Services

America Online is engaged in a variety of networking initiatives to redefine the ways in which members access its services. America Online has contracted with third party data networks, predominantly U.S. Sprint, so that members in cities throughout the United States and Canada can dial one of approximately 750 local

access numbers to connect to its service. In order to ensure sufficient network capacity, the Company is in the process of renegotiating its agreement with U.S. Sprint to increase U.S. Sprint's network obligations in exchange for a significant increase in the Company's minimum financial commitments thereunder. Based on its current and expected future usage levels, the Company expects to exceed these new minimum commitment levels.

America Online has recently taken several steps to improve its network architecture. Most importantly, the Company has launched AOLnet. Unlike its previous network system, which relied predominantly on a single network provider, AOLnet is based on a portfolio approach whereby network services are provided by a number of different entities, including U.S. Sprint, ANS and BBN. AOLnet provides members with more reliable, higher speed access and should be easier to expand and upgrade. In connection with the development of AOLnet, on February 15, 1995, America Online acquired substantially all of the assets of ANS, including all of the outstanding Common Stock of its commercial subsidiary, ANS+CORE Systems, Inc. The ANS backbone network is among the largest and fastest public data networks, carrying daily traffic of over three billion packets. ANS is expected to become a primary AOLnet service provider. In addition, for members who are travelling away from home and for members who do not have local access to high speed connections, the Company provides an 800 number for high-speed dial-up access nationwide.

America Online is also investing in the development of alternative technologies to deliver its services. For example, America Online has entered into agreements with several manufacturers of PDAs, including Sony, Motorola, Tandy and Casio, to bundle a palmtop edition of America Online's client software with the PDAs sold by such manufacturers. America Online is currently participating with each of Viacom, Comcast, Rogers Cablesystems, TCI Communications and Cablevision Systems in cable trials to deliver its consumer online services to personal computers via cable networks and has announced that it will support cable modem platforms of Intel, General Instruments, Scientific Atlanta and LAN City. In the paging market, America Online has entered into agreements with AT&T Wireless Services and MobileMedia to provide their paging customers who subscribe to America Online with mobile access to certain America Online services. America Online has entered into an agreement with Pacific Bell regarding the delivery of America Online's service over ISDN connections in its service area.

International Expansion

America Online has focused its international expansion on the strategic markets of Europe, Japan and Canada. In April 1995, America Online entered into a joint venture with Bertelsmann, one of the world's largest media companies, to offer interactive services in Europe. The first of these services is expected to be launched in Germany, France and the United Kingdom commencing in late 1995 and early 1996. America Online and Bertelsmann will each initially own 50% of each venture entity, and contemplate possible equity participation by additional strategic partners.

Bertelsmann has agreed to contribute up to \$100 million to fund the launch of the European services, will provide access to its book and music club membership base of over 30 million members, and will offer its publishing content to the joint venture on a most favored customer basis. In addition, Bertelsmann acquired approximately a five percent interest in America Online and has designated a member of the Company's Board of Directors. Bertelsmann has the right to require registration of its shares under certain circumstances beginning in October 1996, or earlier upon the occurrence of certain events.

America Online will contribute interactive technology and management expertise, proprietary software licenses and development services, staff training and technical support in order to develop, test and launch the interactive services in Europe. Subscribers to the new European services will enjoy access to America Online's services in the United States, and United States subscribers will enjoy access to the new European services.

This alliance is intended to leverage Bertelsmann's leadership in book and magazine publishing, music and television and record/book club marketing, and America Online's innovative technology and leadership in developing and managing interactive services.

America Online intends to expand its global services to include Japan through a joint venture arrangement with one or more Japanese partners. In Canada, the Company is expanding access to its AOLnet network throughout Canada and plans to introduce new pricing, Canadian specific content, and targeted marketing efforts to the Canadian market beginning in late 1995. For America Online subscribers traveling abroad, and subscribers outside of the United States who do not have local access to an America Online service, the Company intends to facilitate international access to its service by expanding its international access network.

Enterprise Tools and Solutions

America Online offers authoring and publishing tools and services which give information providers, corporations and Internet entrepreneurs simple and affordable ways to create World Wide Web content and develop commercial applications to exploit the potential of the Internet. America Online acquired NaviSoft in November 1994. NaviSoft has developed a collection of client/server software products, which the Company began shipping in the first quarter of fiscal 1996. The products include Web authoring software called NaviPress and a commercial Web server called NaviServer. The products are available for Windows, Macintosh and Unix platforms. Additionally, the Company will implement and maintain Web sites for third parties through NaviService.

America Online, through its ANS subsidiary, designs, develops and operates high performance wide-area networks for business, research, education and government organizations. The ANS backbone, built on the proprietary expertise developed by ANS as the principal architect of the National Science Foundation Backbone Network Service, was the first and remains one of the largest and fastest public 45 Mbps TCP/IP data networks in the world. Through this network, ANS delivers Internet, wide-area network and virtual private data network services to enterprises.

The Company's offerings to enterprises are expected to enable transactions, electronic publishing, advertising, marketing and customer support, as well as improve communications, over the Internet. The Company anticipates offering these products using a direct sales force and direct marketing, and through OEMs, resellers and system integrators.

Employees

As of June 30, 1995, America Online had 2,481 employees, including 624 in software and content development, 1,283 in customer support, 60 in marketing, 391 in operations and 123 in corporate and finance. America Online believes that its relations with its employees are good. None of America Online's employees is represented by a labor union, and America Online has never experienced a work stoppage.

Legal Proceedings

In July and August 1995, eight class action suits were filed against the Company in a number of state courts seeking unspecified damages for alleged breach of contract, fraud and unfair trade practices arising from the Company's billing practices. The primary substantive allegations in each case involve claims of overcharging customers arising out of changes to the Company's billing system due to the costs the Company incurs in providing telecommunications services. The cases allege that certain aspects of the Company's billing practices were not disclosed to customers. The Company does not believe that these proceedings will have a material effect on the financial position of the Company.

MANAGEMENT

Executive Officers and Directors

The Company's Restated Certificate of Incorporation and Restated By-Laws provide for a classified Board of Directors. The Board of Directors currently consists of eight members, classified into three classes as follows: James G. Andress and Frank J. Caufield constitute a class with a term ending in 1995; Stephen M. Case, William N. Melton and Thomas J. Middelhoff constitute a class with a term ending in 1996; and James V. Kimsey, Alexander M. Haig, Jr. and Scott C. Smith constitute a class with a term ending in 1997. At each annual meeting of shareholders, directors are elected for a full term of three years to succeed those directors whose terms are expiring.

The names of, and certain information regarding, the executive officers and directors of the Company are set forth below. The executive officers serve at the pleasure of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Position(s) with the Company</u>
James V. Kimsey	55	Chairman of the Board of Directors
Stephen M. Case	36	President, Chief Executive Officer and Director
Lennert J. Leader	40	Senior Vice President; Chief Financial Officer; Treasurer and Chief Accounting Officer
David Cole	42	Senior Vice President; President of AOL Enterprises
Michael M. Connors	53	Senior Vice President; President of AOL Technologies
John L. Davies	45	Senior Vice President; President of AOL International
Miles Gilburne	44	Senior Vice President, Corporate Development
Theodore Leonsis	39	Senior Vice President; President of AOL Services Company
Marc S. Seriff	47	Senior Vice President, Product Research
Janice Brandt	44	Vice President; Senior Vice President of AOL Services Company
Richard Hanlon	47	Vice President, Investor Relations
Ellen M. Kirsh	47	Vice President, General Counsel and Secretary
Matthew Korn	36	Vice President, Operations
Barry Schuler	42	Vice President; President of AOL Productions
Mark Stavish	40	Vice President, Human Resources and Facilities
Jean N. Villanueva	35	Vice President, Corporate Communications
Mark Walsh	41	Vice President, Enterprise Solutions
Audrey Y. Weil	35	Vice President; Senior Vice President of AOL Services Company
James G. Andress	55	Director
Frank J. Caufield	54	Director
Alexander M. Haig, Jr.	69	Director
William N. Melton	52	Director
Thomas J. Middelhoff	42	Director
Scott C. Smith	44	Director

Mr. Kimsey, a co-founder of the Company, has served as Chairman of the Board of Directors since 1985. He also served as President of the Company from 1985 to January 1991 and as Chief Executive Officer from 1985 to April 1993. Mr. Kimsey is a director of Globalink, Inc., a translation software company and Capital One Financial Corp., a financing company. Over the past 20 years, Mr. Kimsey has founded and served on the boards of a number of businesses in the Washington, D.C. area.

Mr. Kimsey has announced his intention to step down as the Company's Chairman of the Board of Directors at the next annual meeting of shareholders, and it is expected that Mr. Case will succeed

Mr. Kimsey as Chairman. It is anticipated that Mr. Kimsey will continue to serve as a Director of the Company and as Chairman Emeritus.

Mr. Case, a co-founder of the Company, has been President of the Company since January 1991, Chief Executive Officer of the Company since April 1993 and a Director since September 1992. Previously, he served as Executive Vice President from September 1987 to January 1991 and Vice President, Marketing, from 1985 to September 1987. Before joining the Company, he held marketing positions at PepsiCo, Inc. and Procter & Gamble.

Mr. Leader has been a Senior Vice President, the Chief Financial Officer and Treasurer since joining the Company in September 1989. He served as Secretary from 1989 through October 1993 and became Chief Accounting Officer in October 1993. Prior to joining the Company, Mr. Leader was Vice President, Finance of LEGENT Corporation, a computer software and services company, from March 1989 to September 1989, and Chief Financial Officer of Morino, Inc., a computer software and services company which merged into LEGENT Corporation, from 1986 to March 1989. Mr. Leader is a Certified Public Accountant and was an audit manager at Price Waterhouse prior to joining Morino, Inc. in 1984.

Mr. Cole joined the Company as Senior Vice President and President of AOL Enterprises in November 1994. Mr. Cole had previously served as Chairman, President and CEO of NaviSoft, a software company acquired by the Company in November 1994. Mr. Cole serves as a partner in the Cole-Gilburne Fund, Catalyst II and Pan Pacific Ventures (all venture capital funds). He is also a Director of Shiva Corporation, a computer networking company. Previously, he was President of Ziff Communications, and Chairman and CEO of Ashton-Tate, a software company.

Mr. Connors has served as Senior Vice President and President of AOL Technologies, an operating division of the Company, since September 1994. Mr. Connors was Senior Vice President, Technology and Operations, since joining the Company in October 1992 until September 1994. From 1966 to 1992, Mr. Connors held various management positions with IBM, most recently including Director, Computing Systems, IBM Research and Director, Information Systems.

Mr. Davies has served as Senior Vice President and President of AOL International, an operating division of the Company, since September 1994. Mr. Davies was Senior Vice President, America Online Service, since joining the Company in June 1993 until September 1994. From June 1992 to June 1993, Mr. Davies was President of J. L. Davies & Associates, a consulting firm. Previously, Mr. Davies held various management positions with Citicorp and its affiliates, most recently as Managing Director, Citibank Savings, London, England from May 1989 to June 1992 and as Vice President, Marketing and Strategic Planning, Citicorp from May 1987 to May 1989. Prior to that Mr. Davies was Chief Executive of RCA's European record business and held various marketing management positions with General Electric's consumer electronic business.

Mr. Gilburne joined the Company as Senior Vice President, Corporate Development, in February 1995. Prior to joining the Company, Mr. Gilburne was the founding attorney of the Silicon Valley office of the law firm of Weil, Gotshal & Manges. Mr. Gilburne is also a Principal of the Cole-Gilburne Fund, a venture capital fund.

Mr. Leonsis joined the Company as President of the Company's America Online Services Company in September 1994. For at least the prior five years, Mr. Leonsis was President of Redgate Communications Corporation, which was acquired by the Company in May 1994.

Mr. Seriff, a co-founder of the Company, has served as Senior Vice President, Product Research, since May 1991. Previously, he served as Senior Vice President, Special Projects, from May 1989 to May 1991 and as Senior Vice President, Operations and Engineering, from May 1985 to May 1989.

Ms. Brandt has served as Vice President and Senior Vice President of AOL Services Company, an operating division of the Company, since September 1994. Ms. Brandt was Vice President, Marketing, since joining the Company in April 1993 until September 1994. From November 1988 to April 1993, Ms. Brandt was Vice President of Advertising for Newfield Publications Publishing (formerly Field Publications).

Previously, she was the founder and President of Brandt Direct Marketing and President and Chief Executive Officer of RPA Direct Agency, a marketing company.

Mr. Hanlon joined the Company as Vice President, Investor Relations, in February 1995. Before joining the Company, Mr. Hanlon was President and CEO of Hanlon & Co., a privately-held investor relations firm, from March 1993 through February 1995. Prior to that, Mr. Hanlon served as Vice President, Corporate Communications, and Secretary of LEGENT Corporation, a computer software and services company, from February 1988 to March 1993.

Ms. Kirsh joined the Company as Vice President, General Counsel and Secretary in October 1993. For more than five years prior to that she served as Senior Vice President, General Counsel and Secretary of Systems Center, Inc., an international software company that licensed systems and network management products.

Mr. Korn has been Vice President, Operations of the Company since October 1994. Prior to that he served as Director of Operations from March 1993. Before joining the Company, Mr. Korn worked at IBM for thirteen years, most recently as Senior Manager of Networking Systems at IBM Research.

Mr. Schuler joined the Company as Vice President and President of AOL Productions in May 1995. For the prior five years, Mr. Schuler was President and CEO of Medior, which was acquired by the Company in May 1995.

Mr. Stavish joined the Company as Vice President, Human Resources and Facilities, in February 1995. Prior to joining the Company, Mr. Stavish worked for eight years at PepsiCo, Inc. as the Director, Human Resources, of their Pittsburgh-based business unit.

Ms. Villanueva has been Vice President, Corporate Communications, since April 1993. She previously held the position of Vice President, Marketing, from August 1989 to April 1993 and Director of Marketing from October 1988 to August 1989. Before joining the Company, she held the position of Manager, Marketing Planning and Development, at General Electric Information Services, and Manager, Joint Marketing, with Source Telecomputing Corporation.

Mr. Walsh joined the Company as Vice President, Enterprise Solutions in March 1995. Mr. Walsh was President of GENIE, General Electric Information Service's online service. Previously Mr. Walsh was President of Information Kinetics, Inc. ("IKI"), an interactive information and database publishing company focusing on the employment marketplace. Prior to IKI, Mr. Walsh was Vice President and General Manager of Interactive Services for CUC International, Inc., a direct marketing company.

Ms. Weil has served as Vice President and Senior Vice President of AOL Services Company, an operating division of the Company, since September 1994. Ms. Weil was Vice President, Corporate Development, from March 1993 until September 1994. From January 1991 to March 1993, she served as Vice President, Product Development, and from August 1989 to January 1991, as Vice President, Business Development. Previously she served in various senior management positions in Product Management and Business Development since joining the Company in April 1988. From October 1986 to February 1988, she served in marketing and product management positions with Ralston Purina.

Mr. Andress has been a Director of the Company since September 1992. He has held the positions of Chief Executive Officer and Vice President of Information Resources, Inc., an information services company, since November 1989. From June 1988 to November 1989, he served as Chairman, Health Care Products and Services, of SmithKline Beecham, Pty. Ltd. Prior to that time, he served as President and Chief Operating Officer of Sterling Drug, Inc. Mr. Andress is a director of Genelabs Technologies, Inc., Genetics Institute, Inc., The Liposome Co., Inc., Neorx Corp., Optioncare, Inc. and Sepracor, Inc., biotechnology companies, Walsh International, a medical records company, Allstate Insurance, Inc., an insurance company, and Information Resources, Inc., a technology company.

Mr. Caufield has been a Director of the Company since 1991. He has held the position of general partner of Kleiner, Perkins, Caufield & Byers, a venture capital partnership, since 1978. He is a director of Quickturn Design Systems, an emulation technology company.

General Haig has been a Director of the Company since 1989. He has held the position of Chairman and President of Worldwide Associates, Inc., an international consulting company, since 1984 and is Co-Chairman of US-CIS Ventures. General Haig is the former U.S. Secretary of State, former Vice Chief of Staff, Army, former White House Chief of Staff and former Supreme Allied Commander, Europe. General Haig has been awarded many military decorations, including the Distinguished Service Cross. A retired full General, U.S. Army, he also served as the President and Chief Operating Officer of United Technologies Corp., and is currently a director of Interneuron Pharmaceuticals, Inc. and MGM Grand, Inc.

Mr. Melton has been a Director of the Company since September 1992. From 1980 to 1990, he held positions at VeriFone, Inc., a transaction automation devices company, including President and Chief Executive Officer from 1980 to 1986 and Chairman of the Board from 1986 to 1992. Since 1992, Mr. Melton has continued to serve as a director of VeriFone, Inc. and is a director of Transaction Network Services, Inc., a transaction services company. Mr. Melton is also President and CEO of CyberCash, Inc.

Mr. Middelhoff has been a Director of the Company since May 1995. He has been a member of the Executive Board of Bertelsmann, one of the world's largest media companies, since July 1994. From July 1990 through July 1994, he served as Chairman of the Management Board of Mohndruck Graphische Betriebe GmbH and member of the Board of Directors of Bertelsmann Industries, Gutersloh. Prior to that, he served as Managing Director of Mohndruck Graphische Betriebe GmbH. Mr. Middelhoff has been nominated as a Director of the Company pursuant to the terms of a Stock Purchase Agreement with Bertelsmann.

Mr. Smith has been a Director of the Company since 1991. He has held the position of President and Publisher, Sun-Sentinel Company since September 1993. Previously, Mr. Smith was Senior Vice President, Development, of Tribune Company from November 1991 to August 1993. Previously he held positions at Tribune Company of Senior Vice President and Chief Financial Officer from 1989 to 1991, and Vice President, Finance, from 1985 to 1989.

SELLING SHAREHOLDERS

The table below sets forth certain information regarding the beneficial ownership of Common Stock, as of August 31, 1995, by certain stockholders of the Company who are offering Shares pursuant to this Prospectus, both before and after giving effect to this offering.

Selling Shareholders	Shares Beneficially Owned Prior to the Offering(1)		Shares to be Sold in the Offering	Shares Beneficially Owned After the Offering(1)	
	Number	Percent		Number	Percent
CMG Information Services, Inc.	1,020,000	2.7	1,020,000	—	—
James V. Kimsey(2)	679,616	1.8	200,000	479,616	1.2
O'Reilly & Associates, Inc.	165,625	*	126,300	39,325	*
Brewster Kahle	332,661	*	40,000	292,661	*
Systems Research & Applications Corporation	44,012	*	44,012	—	—
David Goldman	157,373	*	25,000	132,373	*
OS II, L.P.	94,012	*	25,000	69,012	*
Timothy O'Reilly	35,491	*	20,000	15,491	*
William H. Albright	19,708	*	19,708	—	—
Dale Dougherty	35,491	*	15,000	20,491	*
James G. Davidson	310	*	310	—	—
David Long(3)	736	*	310	426	*
Douglas M. McKee(3)	736	*	310	426	*
George W. Williams(3)	736	*	310	426	*

* Represents beneficial ownership of less than 1% of the outstanding shares of Common Stock.

- (1) Unless otherwise noted, the persons named in the table, to the Company's knowledge, have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them.
- (2) Includes 607,712 shares issuable upon the exercise of options to purchase Common Stock within 60 days after August 31, 1995. Mr. Kimsey is the Chairman of the Board of Directors of the Company.
- (3) Includes 426 shares issuable upon the exercise of options to purchase Common Stock within 60 days after August 31, 1995.

CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS OF COMMON STOCK

The following discussion concerns the material United States federal income and estate tax consequences of the ownership and disposition of shares of Common Stock applicable to Non-U.S. Holders of such shares of Common Stock. In general, a "Non-U.S. Holder" is any holder other than (i) a citizen or resident, as specifically defined for U.S. federal income and estate tax purposes, of the United States, (ii) a corporation, partnership or any entity treated as a corporation or partnership for U.S. federal income tax purposes created or organized in the United States or under the laws of the United States or of any State, or (iii) an estate or trust whose income is includible in gross income for United States federal income tax purposes regardless of its source. The discussion is based on current law, which is subject to change retroactively and prospectively, and is for general information only. The discussion does not address all aspects of federal income and estate taxation and does not address any aspects of state, local or foreign tax laws. The discussion does not consider any specific facts or circumstances that may apply to a particular Non-U.S. Holder. Accordingly, prospective investors are urged to consult their tax advisors regarding the United States federal, state, local and Non-U.S. income and other tax consequences of holding and disposing of shares of Common Stock.

Dividends

In general, dividends paid to a Non-U.S. Holder will be subject to United States withholding tax at a 30% rate (or a lower rate as may be prescribed by an applicable tax treaty) unless the dividends are (i) effectively connected with a trade or business carried on by the Non-U.S. Holder within the United States, and (ii) if a tax treaty applies, attributable to a United States permanent establishment maintained by the Non-U.S. Holder. Dividends effectively connected with such a trade or business and attributable to such permanent establishment (if a treaty applies) will generally not be subject to withholding (if the Non-U.S. Holder files certain forms annually with the payor of the dividend) and will generally be subject to United States federal income tax on a net income basis at regular graduated rates. In the case of a Non-U.S. Holder which is a corporation, such effectively connected income also may be subject to the branch profits tax (which is generally imposed at a rate of 30% (or such lower rate as may be specified by treaty) on a foreign corporation on the repatriation from the United States of effectively connected earnings and profits). The branch profits tax may not apply if the recipient is a qualified resident of certain countries with which the United States has an income tax treaty.

To determine the applicability of a tax treaty providing for a lower rate of withholding, dividends paid to an address in a foreign country are presumed under current Treasury Regulations to be paid to a resident of that country, unless the payor has definite knowledge that such presumption is not warranted or an applicable tax treaty (or United States Treasury Regulations thereunder) requires some other method for determining a Non-U.S. Holder's residence. Treasury Regulations proposed in 1984, if finally adopted, however, would require Non-U.S. Holders to file certain forms to obtain the benefit of any applicable tax treaty providing for a lower rate of withholding tax on dividends. Such forms would be required to contain the holder's name and address and, subject to a *de minimis* payment exception, an official statement by the competent authority in the foreign country (as designated in the applicable tax treaty) attesting to the holder's status as a resident thereof. Under current regulations, the Company must report annually to the Internal Revenue Service and to each Non-U.S. Holder the amount of dividends paid to, and the tax withheld with respect to, each Non-U.S. Holder. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable tax treaty. Copies of these information returns also may be made available under the provisions of a specific treaty or agreement with the tax authorities in the country in which the Non-U.S. Holder resides.

Sale of Common Stock

Generally, a Non-U.S. Holder will not be subject to United States federal income tax on any gain realized upon the disposition of such holder's shares of Common Stock unless (i) the gain is effectively connected with a trade or business carried on by the Non-U.S. Holder within the United States and, if a tax treaty applies, attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States; (ii) the Non-U.S. Holder is an individual who holds the shares of Common Stock as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition, and the gain

from the disposition is attributable to an office or fixed place of business maintained by such Non-U.S. Holder in the United States; (iii) the Non-U.S. Holder is subject to tax pursuant to the provisions of U.S. tax law applicable to certain United States expatriates; or (iv) the Company is or has been during certain periods a "U.S. real property holding corporation" for U.S. federal income tax purposes (which the Company does not believe that it is or is likely to become) and, assuming that the Common Stock is deemed for tax purposes to be "regularly traded on an established securities market," the Non-U.S. holder held, at any time during the five-year period ending on the date of disposition (or such shorter period that such shares were held), directly or indirectly, more than five percent of the Common Stock.

Estate Tax

Shares of Common Stock owned or treated as owned by an individual who is not a citizen or resident (as specially defined for United States federal estate tax purposes) of the United States at the time of death will be includible in the individual's gross estate for United States federal estate tax purposes, unless an applicable tax treaty provides otherwise, and may be subject to United States federal estate tax.

Backup Withholding and Information Reporting

Under current United States federal income tax law, backup withholding tax (which generally is a withholding tax imposed at the rate of 31% on certain payments to persons that fail to furnish the information required under the U.S. information reporting requirements) and information reporting requirements apply to payments of dividends (actual and constructive) made to certain non-corporate United States persons. The United States backup withholding tax and information reporting requirements will generally not apply to dividends paid on Common Stock to a Non-U.S. Holder at an address outside the United States.

The payment of the proceeds from the disposition of shares of Common Stock to or through the United States office of a broker will be subject to information reporting and backup withholding unless the holder, under penalties of perjury, certifies, among other things, its status as a Non-U.S. Holder, or otherwise establishes an exemption. Generally, the payment of the proceeds from the disposition of shares of Common Stock to or through a non-U.S. office of a broker will not be subject to backup withholding and will not be subject to information reporting. In the case of the payment of proceeds from the disposition of shares of Common Stock to or through a non-U.S. office of a broker that is a U.S. person or a "U.S.-related person," existing regulations require information reporting (but not backup withholding) on the payment unless the broker receives a statement from the owner, signed under penalties of perjury, certifying, among other things, its status as a Non-U.S. Holder, or the broker has documentary evidence in its files that the owner is a Non-U.S. Holder and the broker has no actual knowledge to the contrary. For this purpose, a "U.S.-related person" is (i) a "controlled foreign corporation" for United States federal income tax purposes or (ii) a foreign person 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the broker has been in existence) is derived from activities that are effectively connected with the conduct of a United States trade or business. The backup withholding and information reporting rules are currently under review by the Treasury Department and their application to the shares of Common Stock is subject to change. Non-U.S. Holders should consult their tax advisors regarding the application of these rules to their particular situations, the availability of an exemption therefrom and the procedure for obtaining such an exemption, if available.

Any amounts withheld from a payment to a Non-U.S. Holder under the backup withholding rules will be allowed as a credit against such holder's United States federal income tax liability, if any, and may entitle such holder to a refund, provided that the required information is furnished to the United States Internal Revenue Service.

UNDERWRITERS

Under the terms and subject to the conditions in the Underwriting Agreement dated the date hereof, the U.S. Underwriters named below, for whom Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as U.S. Representatives, and the International Underwriters named below, for whom Morgan Stanley & Co. International Limited, Goldman Sachs International and Merrill Lynch International Limited are acting as International Representatives, have severally agreed to purchase and the Company and the Selling Shareholders have agreed to sell to the Underwriters, 1,963,740 and 1,536,260 shares, respectively, of Common Stock, which in the aggregate equals the number of shares set forth opposite the names of such Underwriters below.

<u>Name</u>	<u>Number of Shares</u>
U.S. Underwriters:	
Morgan Stanley & Co. Incorporated	
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Alex. Brown & Sons Incorporated	
Subtotal	2,800,000
International Underwriters:	
Morgan Stanley & Co. International Limited	
Goldman Sachs International	
Merrill Lynch International Limited	
Alex. Brown & Sons Incorporated	
Subtotal	700,000
Total	<u>3,500,000</u>

The U.S. Underwriters and the International Underwriters are collectively referred to as the "Underwriters." The U.S. Representatives and the International Representatives are collectively referred to herein as the "Representatives." The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the shares of Common Stock offered hereby are subject to the approval of certain legal matters by their counsel and to certain other conditions. The Underwriters are obligated to take and pay for all the shares of Common Stock offered hereby (other than those covered by the over-allotment option described below) if any such shares are taken.

Pursuant to the Agreement Between U.S. and International Underwriters, each U.S. Underwriter has represented and agreed that, with certain exceptions, (i) it is not purchasing any U.S. Shares (as defined below) for the account of anyone other than a United States or Canadian Person (as defined below) and (ii) it has not offered or sold, and will not offer to sell, directly or indirectly, any U.S. Shares or distribute any prospectus relating to the U.S. Shares outside the United States or Canada or to anyone other than a United States or Canadian Person. Pursuant to the Agreement Between U.S. and International Underwriters, each International Underwriter has represented and agreed that, with certain exceptions, (i) it is not purchasing any International Shares (as defined below) for the account of any United States or Canadian Person and (ii) it has not offered or sold, and will not offer or sell, directly or indirectly, any International Shares or distribute any prospectus relating to the International Shares within the United States or in any province or territory of Canada or to any United States or Canadian Person. The foregoing limitations do not apply to stabilization transactions or to certain other transactions specified in the Agreement Between U.S. and International Underwriters. As used herein, "United States or Canadian Person" means any national or resident of the United States or Canada, or any corporation, pension, profit-sharing or other trust or other entity organized under the laws of the United States or Canada or of any political subdivision thereof (other than a branch located outside the United States and Canada of any United States or Canadian Person) and includes any United States or Canadian branch of a person who is otherwise not a United States or Canadian Person. All shares of Common Stock to be purchased by the U.S. Underwriters and the International Underwriters are referred to herein as the U.S. Shares and the International Shares, respectively.

Pursuant to the Agreement Between U.S. and International Underwriters, sales may be made between the U.S. Underwriters and International Underwriters of any number of shares of Common Stock to be purchased pursuant to the Underwriting Agreement as may be mutually agreed. The per share price of any shares sold shall be the Price to Public set forth on the cover page hereof, in United States dollars, less an amount not greater than the per share amount of the concession to dealers set forth below.

Pursuant to the Agreement Between U.S. and International Underwriters, each U.S. Underwriter has represented that it has not offered or sold, and has agreed not to offer or sell, any shares of Common Stock, directly or indirectly, in any province or territory of Canada in contravention of the securities laws thereof and has represented that any offer of Common Stock in Canada will be made only pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer is made. Each U.S. Underwriter has further agreed to send to any dealer who purchases from it any shares of Common Stock a notice stating in substance that, by purchasing such Common Stock, such dealer represents and agrees that it has not offered or sold, and will not offer or sell, directly or indirectly, any of such Common Stock in any province or territory of Canada or to, or for the benefit of, any resident of Canada in contravention of the securities laws thereof and that any offer of Common Stock in Canada will be made only pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer is made, and that such dealer will deliver to any other dealer to whom it sells any of such Common Stock a notice to the foregoing effect.

Pursuant to the Agreement Between U.S. and International Underwriters, each International Underwriter has represented and agreed that (i) it has not offered or sold and will not offer or sell any shares of Common Stock to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the "Regulations"); (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 and the Regulations with respect to anything done by it in relation to the shares of Common Stock offered hereby in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on and will only issue or pass on to any person in the United Kingdom any document received by it in connection with the issue of the shares of Common Stock if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995, or is a person to whom the document may otherwise lawfully be issued or passed on.

Pursuant to the Agreement Between U.S. and International Underwriters, each International Underwriter has represented and agreed that it has not offered or sold, and agrees not to offer or sell, directly or indirectly, in Japan or to or for the account of any resident thereof, any of the shares of Common Stock acquired in connection with the distribution contemplated hereby, except for offers or sales to Japanese International Underwriters or dealers and except pursuant to any exemption from the registration requirements of the Securities and Exchange Law of Japan. Each International Underwriter further agrees to send to any dealer who purchases from it any of the shares of Common Stock a notice stating in substance that, by purchasing such shares, such dealer represents and agrees that it has not offered or sold, and will not offer or sell, any of such shares directly or indirectly in Japan or to or for the account of any resident thereof except pursuant to any exemption from the registration requirements of the Securities and Exchange Law of Japan, and that such dealer will send to any other dealer whom it sells any of such shares of Common Stock a notice containing substantially the same statement as contained in the foregoing.

The Underwriters propose to offer part of the Common Stock directly to the public at the Price to Public set forth on the cover page hereof and part to certain dealers at a price which represents a concession not in excess of \$ a share below the public offering price. The underwriters may allow, and such dealers may reallow, a concession not in excess of \$ a share to other Underwriters or to certain other dealers. After the initial offering of the Common Stock, the offering price and other selling terms may from time to time be changed by the Representatives.

Pursuant to the Underwriting Agreement, the Company has granted the U.S. Underwriters an option exercisable for 30 days from the date of this Prospectus, to purchase up to 525,000 additional shares of

Common Stock at the public offering price set forth on the cover page hereof, less underwriting discounts and commissions. The U.S. Underwriters may exercise such option to purchase solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of Common Stock offered hereby. To the extent such option is exercised, each U.S. Underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number set forth next to such U.S. Underwriter's name in the preceding table bears to the total number of shares of Common Stock offered by the U.S. Underwriters hereby.

The Company and the directors and executive officers of the Company have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated, they will not during the period ending 90 days after the date of this Prospectus (a) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, or (b) enter into any swap or other agreement that transfers, in whole or in part, any economic consequences of ownership of the Common Stock, whether any such transaction described in clause (a) or (b) of this paragraph is to be settled by delivery of such Common Stock or such other securities, in cash or otherwise, other than (i) the sale to the Underwriters of the Shares under the Underwriting Agreement, (ii) the issuance by the Company of shares of Common Stock or other securities upon the exercise of an option warrant or right or the conversion or exchange of a security outstanding on the date of this Prospectus, (iii) the issuance by the Company of any Common Stock or options of the Company granted pursuant to the stock incentive plans of the Company and (iv) the issuance by the Company of any shares of Common Stock or any other securities of the Company in connection with acquisitions, joint ventures, strategic relationships or similar transactions, provided that recipients of such shares or securities agree to be bound by the restrictions described in this paragraph for the same period ending 90 days after the date of this Prospectus. Each Selling Shareholder has also agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated, it will not, during the same period ending 90 days after the date of this Prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exchangeable for Common Stock.

The Company, the Selling Shareholders and the Underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Federal securities laws.

Pursuant to regulations promulgated by the Commission, market makers in the Common Stock who are Underwriters or prospective underwriters ("passive market makers") may, subject to certain limitations, make bids for or purchases of shares of Common Stock until the earlier of the time of commencement (the "Commencement Date") of offers or sales of the Common Stock contemplated by this Prospectus or the time at which a stabilizing bid for such shares is made. In general, on and after the date two business days prior to the Commencement Date (1) such market maker's net daily purchases of the Common Stock may not exceed 30% of its average daily trading volume in such stock for the two full consecutive calendar months immediately preceding the filing date of the Registration Statement of which this Prospectus forms a part, (2) such market maker may not effect transactions in, or display bids for, the Common Stock at a price that exceeds the highest bid for the Common Stock by persons who are not passive market makers and (3) bids made by passive market makers must be identified as such.

LEGAL MATTERS

The validity of the shares offered in connection with this offering will be passed upon for the Company by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts ("Mintz Levin"). A member of Mintz Levin owns 200 shares, and options to purchase 47,000 shares, of Common Stock. Certain legal matters will be passed upon for the Underwriters by Davis Polk & Wardwell, New York, New York.

EXPERTS

The consolidated financial statements of America Online, Inc. at June 30, 1995 and June 30, 1994, and for each of the three years in the period ended June 30, 1995 appearing in this Prospectus and the Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report

thereon appearing elsewhere herein and in the Registration Statement, and are included herein in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Commission in Washington, D.C., a Registration Statement on Form S-3 under the Securities Act of 1933, as amended, with respect to the securities offered hereby. This Prospectus does not contain all the information included in the Registration Statement, certain items of which are omitted in accordance with the rules and regulations of the Commission. For further information about the Company and the securities offered hereby, reference is made to the Registration Statement and the Exhibits thereto.

Statements contained herein concerning the provisions of documents filed with, or incorporated by reference in, the Registration Statement as exhibits are necessarily summaries of such documents and each such statement is qualified in its entirety by reference to the copy of the applicable documents filed with the Commission.

America Online and the Company's triangular logo are registered trademarks of the Company. AOL, AOLnet, Greenhouse and WebCrawler are trademarks of America Online, Inc., with respect to which the Company has pending applications with the United States Patent & Trademark Office.

NaviSoft, NaviPress and NaviServer are trademarks of NaviSoft, Inc., with respect to which the Company has pending applications with the U.S. Patent & Trademark Office.

ANS is a trademark of Advanced Network & Services, Inc.

GNN is a registered trademark of Global Network Navigator, Inc.

This Prospectus also includes other trademarks and tradenames of companies other than the Company.

AMERICA ONLINE, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
America Online, Inc.

We have audited the accompanying consolidated balance sheets of America Online, Inc. as of June 30, 1995 and 1994, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of America Online, Inc. at June 30, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 9 to the consolidated financial statements, in fiscal 1994 the Company changed its method of accounting for income taxes. As discussed in Note 2 to the consolidated financial statements, in fiscal 1995 the Company changed its method of accounting for short-term investments in certain debt and equity securities.

Ernst & Young LLP

Vienna, Virginia
August 25, 1995

AMERICA ONLINE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

	Year ended June 30,		
	1995	1994	1993
Revenues:			
Online service revenues	\$358,498	\$100,993	\$38,462
Other revenues	<u>35,792</u>	<u>14,729</u>	<u>13,522</u>
Total revenues	394,290	115,722	51,984
Costs and expenses:			
Cost of revenues	229,724	69,043	28,820
Marketing	77,064	23,548	9,745
Product development	12,842	4,961	2,913
General and administrative	41,966	13,562	8,581
Acquired research and development	50,335	—	—
Amortization of goodwill	<u>1,653</u>	<u>—</u>	<u>—</u>
Total costs and expenses	413,584	111,114	50,059
Income (loss) from operations	(19,294)	4,608	1,925
Other income, net	3,023	1,774	371
Merger expenses	<u>(2,207)</u>	<u>—</u>	<u>—</u>
Income (loss) before provision for income taxes and extraordinary item	(18,478)	6,382	2,296
Provision for income taxes	<u>(15,169)</u>	<u>(3,832)</u>	<u>(1,897)</u>
Income (loss) before extraordinary item	(33,647)	2,550	399
Extraordinary item — tax benefit arising from net operating loss carryforward	<u>—</u>	<u>—</u>	<u>1,133</u>
Net income (loss)	<u><u>\$ (33,647)</u></u>	<u><u>\$ 2,550</u></u>	<u><u>\$ 1,532</u></u>
Earnings (loss) per share:			
Income (loss) before extraordinary item	\$ (0.99)	\$ 0.07	\$ 0.01
Net income (loss)	\$ (0.99)	\$ 0.07	\$ 0.05
Weighted average shares outstanding	33,986	34,208	29,286

See accompanying notes.

AMERICA ONLINE, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	June 30,	
	1995	1994
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 45,378	\$ 43,891
Short-term investments	18,672	24,052
Trade accounts receivable	32,176	8,547
Other receivables	11,103	2,036
Prepaid expenses and other current assets	25,527	5,753
Total current assets	132,856	84,279
Property and equipment at cost, net	70,466	20,306
Other assets:		
Product development costs, net	18,914	7,912
Deferred subscriber acquisition costs, net	77,229	26,392
License rights, net	5,537	53
Other assets	11,479	2,800
Deferred income taxes	35,627	12,842
Goodwill, net	54,356	—
	<u>\$406,464</u>	<u>\$154,584</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 84,639	\$ 15,642
Accrued personnel costs	2,829	896
Other accrued expenses and liabilities	23,509	13,076
Deferred revenue	20,021	4,488
Line of credit	484	1,690
Current portion of long-term debt and capital lease obligations	1,830	597
Total current liabilities	133,312	36,389
Long-term liabilities:		
Notes payable	17,369	5,836
Capital lease obligations	2,127	1,179
Deferred income taxes	35,627	12,842
Deferred rent	85	41
Total liabilities	188,520	56,287
Stockholders' equity:		
Preferred stock, \$.01 par value; 5,000,000 shares authorized, none issued	—	—
Common stock, \$.01 par value; 100,000,000 shares authorized, 37,554,849 and 30,771,212 shares issued and outstanding at June 30, 1995 and 1994, respectively	375	308
Additional paid-in capital	251,539	98,836
Accumulated deficit	(33,970)	(847)
Total stockholders' equity	217,944	98,297
	<u>\$406,464</u>	<u>\$154,584</u>

See accompanying notes.

AMERICA ONLINE, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Amounts in thousands, except share data)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Deficit</u>	
			<u>Capital</u>		
Balances at June 30, 1992	23,135,780	\$231	\$ 26,250	\$ (4,870)	\$ 21,611
Exercise of common stock options and warrants	1,645,288	16	568	—	584
Other	—	—	111	(59)	52
Tax benefit related to stock options	—	—	6	—	6
Net income	—	—	—	1,532	1,532
Balances at June 30, 1993	24,781,068	247	26,935	(3,397)	23,785
Common stock issued:					
Exercise of options and warrants	1,413,640	14	1,850	—	1,864
Sale of stock, net	4,576,504	47	65,461	—	65,508
Tax benefit related to stock options	—	—	4,590	—	4,590
Net income	—	—	—	2,550	2,550
Balances at June 30, 1994	30,771,212	308	98,836	(847)	98,297
Effect of immaterial poolings	1,031,378	10	1,043	524	1,577
Balances as restated	31,802,590	318	99,879	(323)	99,874
Common stock issued:					
Exercise of options	1,452,628	14	4,670	—	4,684
Business acquisitions	2,392,677	24	75,677	—	75,701
Sale of stock, net	1,906,954	19	56,550	—	56,569
Tax benefit related to stock options	—	—	14,763	—	14,763
Net loss	—	—	—	(33,647)	(33,647)
Balances at June 30, 1995	<u>37,554,849</u>	<u>\$375</u>	<u>\$251,539</u>	<u>\$(33,970)</u>	<u>\$217,944</u>

See accompanying notes.

AMERICA ONLINE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year ended June 30,		
	1995	1994	1993
Cash flows from operating activities:			
Net income (loss)	\$ (33,647)	\$ 2,550	\$ 1,532
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,136	2,965	1,957
Amortization of subscriber acquisition costs	60,924	17,922	7,038
Loss/ (Gain) on sale of property and equipment	37	5	(39)
Charge for acquired research and development	50,335	—	—
Changes in assets and liabilities:			
Trade accounts receivable	(14,373)	(4,266)	(936)
Other receivables	(9,057)	(681)	(966)
Prepaid expenses and other current assets	(19,641)	(2,867)	(1,494)
Deferred subscriber acquisition costs	(111,761)	(37,424)	(10,685)
Other assets	(8,432)	(2,519)	(89)
Trade accounts payable	60,824	10,204	2,119
Accrued personnel costs	1,846	367	336
Other accrued expenses and liabilities	5,703	9,526	1,492
Deferred revenue	7,190	2,322	1,381
Deferred income taxes	14,763	3,832	759
Deferred rent	44	(52)	(200)
Total adjustments	49,538	(666)	673
Net cash provided by operating activities	15,891	1,884	2,205
Cash flows from investing activities:			
Short-term investments	5,380	(18,947)	(5,105)
Purchase of property and equipment	(57,751)	(17,886)	(2,041)
Product development costs	(13,011)	(5,132)	(1,831)
Sale of property and equipment	180	95	62
Purchase costs of acquired businesses	(20,523)	—	—
Net cash used in investing activities	(85,725)	(41,870)	(8,915)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	61,253	67,372	609
Principal and accrued interest payments on line of credit and long-term debt	(3,298)	(7,716)	(6,924)
Proceeds from line of credit and issuance of long-term debt	13,741	14,200	7,181
Tax benefit from stock option exercises	—	—	6
Principal payments under capital lease obligations	(375)	(142)	(112)
Net cash provided by financing activities	71,321	73,714	760
Net increase (decrease) in cash and cash equivalents	1,487	33,728	(5,950)
Cash and cash equivalents at beginning of period	43,891	10,163	16,113
Cash and cash equivalents at end of period	<u>\$ 45,378</u>	<u>\$ 43,891</u>	<u>\$ 10,163</u>
Supplemental cash flow information			
Cash paid during the period for:			
Interest	1,067	575	193
Income taxes	—	—	15

See accompanying notes.

AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

America Online, Inc. ("the Company") was incorporated in the State of Delaware in May 1985. The Company, based in Vienna, Virginia, is a leading provider of online services, offering its subscribers a wide variety of services, including e-mail, online conferences, entertainment, software, computing support, interactive magazines and newspapers, and online classes, as well as easy and affordable access to services of the Internet. In addition, the Company is a provider of data network services, new media and interactive marketing services, and multimedia and CD-ROM production services.

2. Summary of Significant Accounting Policies

Principles of Consolidation — The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in affiliates owned twenty percent or more and corporate joint ventures are accounted for under the equity method. Other securities in companies owned less than twenty percent are accounted for under the cost method.

Business Combinations — Business combinations which have been accounted for under the purchase method of accounting include the results of operations of the acquired business from the date of acquisition. Net assets of the companies acquired are recorded at their fair value to the Company at the date of acquisition.

Other business combinations have been accounted for under the pooling of interests method of accounting. In such cases, the assets, liabilities, and stockholders' equity of the acquired entities were combined with the Company's respective accounts at recorded values. Prior period financial statements have been restated to give effect to the merger unless the effect of the business combination is not material to the financial statements of the Company.

Revenue and cost recognition — Online service revenue is recognized over the period services are provided. Other revenue, consisting principally of marketing, data network and multimedia production services, as well as development and royalty revenues, are recognized as services are rendered. Deferred revenue consists principally of third-party development funding not yet recognized and monthly subscription fees billed in advance.

Property and equipment — Property and equipment are depreciated or amortized using the straight-line method over the estimated useful life of the asset, which ranges from 5 to 40 years, or over the life of the lease.

Property and equipment under capital leases are stated at the lower of the present value of minimum lease payments at the beginning of the lease term or fair value at inception of the lease.

Deferred subscriber acquisition costs — Subscriber acquisition costs are deferred and charged to operations over a twelve or eighteen month period (straight-line method) beginning the month after such costs are incurred. These costs, which relate directly to subscriber solicitations, principally include printing, production and shipping of starter kits and the costs of obtaining qualified prospects by various targeted direct marketing programs (i.e., direct marketing response cards, mailing lists) and from third parties, and are recorded separately from ordinary operating expenses. No indirect costs are included in subscriber acquisition costs. To date, all subscriber acquisition costs have been incurred for the solicitation of specific identifiable prospects. Costs incurred for other than those targeted at specific identifiable prospects for the Company's services, and general marketing, are expensed as incurred.

The Company's services are sold on a monthly subscription basis. Subscriber acquisition costs incurred to obtain new subscribers are recoverable from revenues generated by such subscribers within a short period of time after such costs are incurred.

Effective July 1, 1992, the Company changed, from twelve months to eighteen months, the period over which it amortizes the cost of deferred subscriber acquisition costs relating to marketing activities in which the

AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Company's starter kit is bundled and distributed by a third-party marketing company. The change in accounting estimate was made to more accurately match revenues and expenses. Based on the Company's experience and the distribution channels used in such marketing activities, there is a greater time lag between the time the Company incurs the cost for the starter kits and the time the starter kits begin to generate new customers than with direct marketing activities. Also, the period over which new subscribers (and related revenues) are generated is longer than that experienced with the use of traditional independent, direct marketing activities. The effect of this change in accounting estimate for the year ended June 30, 1993 was to increase income before extraordinary item and net income by \$264,000 (\$.01 per share).

In the first quarter of fiscal 1995 the Company adopted the provisions of Statement of Position ("SOP") 93-7 "Reporting on Advertising Costs" which provides guidance on financial reporting on advertising costs. The adoption of SOP 93-7 had no effect on the Company's financial position or results of operations.

Product development costs — The Company capitalizes costs incurred for the production of computer software used in the sale of its services. Costs capitalized include direct labor and related overhead for software produced by the Company and the costs of software purchased from third parties. All costs in the software development process which are classified as research and development are expensed as incurred until technological feasibility has been established. Once technological feasibility has been established, such costs are capitalized until the software is commercially available. To the extent the Company retains the rights to software development funded by third parties, such costs are capitalized in accordance with the Company's normal accounting policies. Amortization is provided on a product-by-product basis, using the greater of the straight-line method or current year revenue as a percent of total revenue estimates for the related software product not to exceed five years, commencing the month after the date of product release.

Product development costs consist of the following:

	Year ended June 30,	
	1995	1994
	(in thousands)	
Balance, beginning of year	\$ 7,912	\$ 3,915
Costs capitalized	13,011	5,132
Costs amortized	(2,009)	(1,135)
Balance, end of year	<u>\$18,914</u>	<u>\$ 7,912</u>

The accumulated amortization of product development costs related to the production of computer software totaled \$7,894,000, and \$5,885,000 at June 30, 1995 and 1994, respectively.

Included in product development costs are research and development costs totaling \$3,856,000, \$2,126,000, and \$1,130,000 and other product development costs totaling \$6,977,000, \$1,050,000 and \$579,000 in the years ended June 30, 1995, 1994 and 1993, respectively.

License rights — The cost of acquired license rights is amortized using the straight-line method over the term of the agreement for such license rights, ranging from one to three years.

Goodwill — Goodwill consists of the excess of cost over the fair value of net assets acquired and certain other intangible assets relating to purchase transactions. Goodwill and intangible assets are amortized over periods ranging from 5-10 years.

Operating lease costs — Rent expense for operating leases is recognized on a straight-line basis over the lease term. The difference between rent expense incurred and rental payments is charged or credited to deferred rent.

Cash, cash equivalents and short-term investments — The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. In fiscal 1995, the Company

AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

adopted Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities." The adoption was not material to the Company's financial position or results of operations. The Company has classified all debt and equity securities as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income. Available-for-sale securities at June 30, 1995, consisted of U.S. Treasury Bills and other obligations of U.S. Government agencies totaling \$7,579,000 and U.S. corporate debt obligations totaling \$11,093,000. At June 30, 1995, the estimated fair value of these securities approximated cost.

Net income (loss) per common share — Net income (loss) per share is calculated by dividing income (loss) before extraordinary item and net income (loss) by the weighted average number of common and, when dilutive, common equivalent shares outstanding during the period.

Reclassification — Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year presentation.

3. Business Combinations

Pooling transactions

On August 19, 1994, Redgate Communications Corporation ("RCC") was merged with and into a subsidiary of the Company. The Company exchanged 1,789,300 shares of common stock for all of the outstanding common and preferred stock and warrants of RCC. Additionally, 401,148 shares of the Company's common stock were reserved for outstanding stock options issued by RCC and assumed by the Company. The merger was accounted for under the pooling of interests method of accounting, and accordingly, the accompanying consolidated financial statements have been restated for all periods prior to the acquisition to include the financial position, results of operations and cash flows of RCC. Effective August 1994, RCC's fiscal year-end has been changed from December 31 to June 30 to conform to the Company's fiscal year-end.

Revenues and net earnings (loss) for the individual entities are as follows:

	Three months ended September 30, 1994 (unaudited)	Year ended June 30,	
		1994	1993
	(in thousands)		
Total revenues:			
AOL	\$50,783	\$104,410	\$40,019
RCC	3,813	11,312	11,965
Less intercompany sales	(173)	—	—
	<u>\$54,423</u>	<u>\$115,722</u>	<u>\$51,984</u>
Net income (loss):			
AOL	\$ 3,018	\$ 6,210	\$ 4,210
RCC	(42)	(3,660)	(2,678)
Merger expenses	(1,710)	—	—
	<u>\$ 1,266</u>	<u>\$ 2,550</u>	<u>\$ 1,532</u>

In connection with the merger of the Company and RCC, merger expenses of \$1,710,000 were recognized during 1995.

During fiscal 1995, Medior, Inc. and Wide Area Information Servers, Inc. were merged into subsidiaries of the Company. The Company issued 1,082,019 shares of its common stock in the transactions. The

AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

transactions were accounted for under the pooling of interests method of accounting. Prior year financial statements have not been restated for the transactions because the effect would not be material to the operations of the Company.

Purchase Transactions

During fiscal 1995, the Company acquired NaviSoft, Inc. ("NaviSoft"), BookLink Technologies, Inc. ("BookLink"), Advanced Network & Services, Inc. ("ANS") and Global Network Navigator, Inc., in transactions accounted for under the purchase method of accounting. The Company paid a total of \$97,669,000 of which \$75,697,000 was in stock and \$21,972,000 was in cash for the acquisitions. Of the aggregate purchase price, approximately \$50,335,000 was allocated to in-process research and development and \$55,314,000 was allocated to goodwill and other intangible assets.

The following unaudited pro forma information relating to the BookLink and ANS acquisitions is not necessarily an indication of the combined results that would have occurred had the acquisitions taken place at the beginning of the period, nor is it necessarily an indication of the results that may occur in the future. Pro forma information for NaviSoft and Global Network Navigator, Inc. is immaterial to the operations of the consolidated entity. The amount of the aggregate purchase price allocated to in-process research and development for both the NaviSoft and BookLink acquisitions has been excluded from the pro forma information as it is a non-recurring item.

	Year ended June 30,	
	1995	1994
	(in thousands, except per share data)	
Revenues	\$410,147	\$135,785
Income (loss) from operations	23,117	(5,465)
Pro forma income (loss)	11,205	(4,694)
Pro forma income (loss) per share	\$ 0.25	\$ (0.16)

4. Property and Equipment

Property and equipment consist of the following:

	June 30,	
	1995	1994
	(in thousands)	
Computer equipment	\$49,167	\$12,418
Furniture and fixtures	4,992	1,398
Buildings	13,800	5,648
Land	6,075	2,052
Building improvements	6,284	1,343
Property under capital leases	8,486	2,686
Leasehold improvements	3,059	306
	91,863	25,851
Less accumulated depreciation and amortization	21,397	5,545
Net property and equipment	<u>\$70,466</u>	<u>\$20,306</u>

AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. License Rights

License rights consist of the following:

	June 30,	
	1995	1994
	(in thousands)	
License rights	\$ 7,484	\$ 954
Less accumulated amortization	(1,947)	(901)
	<u>\$ 5,537</u>	<u>\$ 53</u>

6. Commitments and Contingencies

The Company leases equipment under several long-term capital and operating leases. Future minimum payments under capital leases and non cancelable operating leases with initial terms of one year or more consist of the following:

	Capital Leases	Operating Leases
	(in thousands)	
Year ending June 30,		
1996	\$1,654	\$20,997
1997	1,236	21,264
1998	641	19,450
1999	310	8,711
2000	103	3,511
Thereafter	—	2,636
Total minimum lease payments	3,944	<u>\$76,569</u>
Less amount representing interest	(402)	
Present value of net minimum capital lease payments, including current portion of \$1,415	<u>\$3,542</u>	

The Company's rental expense under operating leases in the years ended June 30, 1995, 1994 and 1993 totaled approximately \$10,001,000, \$2,889,000, and \$2,155,000, respectively.

Communication networks — The Company has guaranteed monthly usage levels of data and voice communications with one of its vendors. The remaining commitments are \$113,400,000, \$59,000,000, \$9,000,000 and \$6,750,000 for the years ending June 30, 1996, 1997, 1998 and 1999, respectively. The related expense for the years ended June 30, 1995, 1994 and 1993 was \$138,793,000, \$40,315,000 and \$11,226,000, respectively.

Contingencies — Various legal proceedings have arisen against the Company in the ordinary course of business. In the opinion of management, these proceedings will not have a material effect on the financial position of the Company.

7. Notes Payable

Notes payable at June 30, 1995 totaled approximately \$18 million and consist primarily of amounts borrowed to finance the purchases of two office buildings. The notes are collateralized by the respective properties. The notes have a variable interest rate equal to 105 basis points above the 30 day London Interbank Offered Rate and a fixed interest rate of 8.48% per annum at June 30, 1995. Aggregate maturities of notes payable for the years ended June 30, 1996, 1997, 1998, 1999, 2000 and thereafter are \$415,000, \$429,000, \$445,000, \$462,000, \$480,000 and \$15,553,000, respectively.

AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Other Income

The following table summarizes the components of other income:

	Year ended June 30,		
	1995	1994	1993
	(in thousands)		
Interest income	\$ 3,920	\$1,646	\$ 572
Interest expense	(1,054)	(575)	(172)
Other	157	703	(29)
	<u>\$ 3,023</u>	<u>\$1,774</u>	<u>\$ 371</u>

9. Income Taxes

The provision for income taxes is attributable to:

	Year ended June 30,		
	1995	1994	1993
	(in thousands)		
Income before extraordinary item	\$15,169	\$3,832	\$ 1,897
Tax benefit arising from net operating loss carryforward	—	—	(1,133)
	<u>\$15,169</u>	<u>\$3,832</u>	<u>\$ 764</u>
Current	\$ —	\$ —	\$ 5
Deferred	15,169	3,832	759
	<u>\$15,169</u>	<u>\$3,832</u>	<u>\$ 764</u>

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before provision for income taxes and extraordinary item. The sources and tax effects of the differences are as follows:

	Year ended June 30,		
	1995	1994	1993
	(in thousands)		
Income tax at the federal statutory rate of 34%	\$(6,283)	\$2,170	\$ 781
State income tax, net of federal benefit	1,597	403	200
Losses relating to RCC	—	1,259	916
Nondeductible merger expenses	750	—	—
Nondeductible charge for purchased research and development	17,114	—	—
Loss, for which no tax benefit was derived	1,632	—	—
Other	359	—	—
	<u>\$15,169</u>	<u>\$3,832</u>	<u>\$1,897</u>

Deferred income taxes arise because of differences in the treatment of income and expense items for financial reporting and income tax purposes, primarily relating to deferred subscriber acquisition and product development costs.

As of June 30, 1995, the Company has net operating loss carryforwards of approximately \$109 million for tax purposes which will be available, subject to certain annual limitations, to offset future taxable income. If not used, these loss carryforwards will expire between 2001 and 2010. To the extent that net operating loss carryforwards, when realized, relate to stock option deductions, the resulting benefits will be credited to stockholders' equity.

AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's income tax provision was computed based on the federal statutory rate and the average state statutory rates, net of the related federal benefit.

Effective July 1, 1993 the Company changed its method of accounting for income taxes from the deferred method to the liability method required by FASB Statement No. 109, "Accounting for Income Taxes." As permitted under the new rules, prior years' financial statements have not been restated.

No increase to net income resulted from the cumulative effect of adopting Statement No. 109 as of July 1, 1993. The deferred tax asset increased by approximately \$5,965,000 as a result of the adoption. Similarly, the deferred tax liability, stockholders' equity and the valuation allowance increased by approximately \$3,173,000, \$759,000 and \$2,033,000, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	June 30,	
	1995	1994
	(in thousands)	
Deferred tax liabilities:		
Capitalized software costs	\$ 7,008	\$ 2,962
Deferred member acquisition costs	28,619	9,880
Net deferred tax liabilities	<u>\$35,627</u>	<u>\$12,842</u>
Deferred tax assets:		
Net operating loss carryforwards	<u>\$39,000</u>	<u>\$17,510</u>
Total deferred tax assets	39,000	17,510
Valuation allowance for deferred assets	<u>(3,373)</u>	<u>(4,668)</u>
Net deferred tax assets	<u>\$35,627</u>	<u>\$12,842</u>

10. Capital Accounts

Common stock — At June 30, 1995 and 1994 the Company's \$.01 par value common stock authorized was 100,000,000 and 20,000,000 shares, respectively, with 37,544,849 and 30,771,212 shares issued and outstanding, respectively. At June 30, 1995, 23,778,605 shares were reserved for the exercise of issued and unissued common stock options and warrants, and 289,115 shares were reserved for issuance in connection with the Company's Employee Stock Purchase Plan.

During April 1995, the Company sold approximately 5% of its common stock for approximately \$54 million to Bertelsmann, AG in connection with a joint venture.

Preferred Stock — In February 1992, the Company's stockholders approved an amendment and restatement of the certificate of incorporation which authorized the future issuance of 5,000,000 shares of preferred stock, \$.01 par value, with rights and preferences to be determined by the Board of Directors. As of June 30, 1995 no shares of preferred stock had been issued.

Warrants — Under a December 1992 licensing and development agreement with Apple Computer, Inc. ("Apple"), the Company issued warrants to Apple to purchase 2,000,000 shares of common stock at an exercise price of \$6.25 per share.

In connection with an agreement with the Company's primary communications provider, the Company issued warrants, exercisable through March 31, 1999, subject to certain performance standards specified in the agreement, to purchase 1,800,000 shares of common stock at a price of \$7.81 per share.

Shareholder Rights Plan — During fiscal 1993, the Company adopted a shareholder rights plan and distributed a dividend of one preferred share purchase right (a "Right") for each outstanding share of the

AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Company's common stock. The Rights become exercisable in certain limited circumstances involving a potential business combination or change of control transaction of the Company. Each Right initially entitles registered holders of the Company's common stock to purchase one one-hundredth of a share of the Company's new Series A Junior Participating Preferred Stock ("Series A Preferred Stock") at a price of \$150.00 per one one-hundredth of a share of Series A Preferred Stock. Following certain other events after the Rights have become exercisable, each Right entitles its holder to purchase for \$150.00 an amount of common stock of the Company or, in certain circumstances, securities of the acquirer, having a then-current market value of two times the exercise price of the Right. The Rights are redeemable for one cent per right at the option of the Board of Directors. Until a Right is exercised, the holder of the Right, as such, has no rights as a shareholder of the Company. The Rights expire on May 3, 2003 unless redeemed prior to that date.

Stock Splits — On November 25, 1994 and April 27, 1995, the Company effected two-for-one splits of the outstanding shares of common stock. Accordingly, all data shown in the accompanying consolidated financial statements and notes has been retroactively adjusted to reflect the stock splits.

11. Stock Plans

Incentive stock option plan — In June 1985, the Company approved and adopted an incentive stock option plan ("the 1985 Plan"). The 1985 Plan provides for the grant of options to purchase common stock to eligible employees of the Company. The 1985 Plan is administered by the Compensation Committee of the Board of Directors. The 1985 Plan will terminate in December 1995. The total number of shares of common stock that may be issued pursuant to options granted under the 1985 Plan is 3,002,872. The issued options vest over three-year or four-year periods and are exercisable for ten years following the date of the grant.

The following table summarizes incentive stock option activity under the 1985 Plan:

	Number of shares	Option price per share
Balance at June 30, 1992	2,191,844	\$0.12 — \$2.25
Granted	—	—
Exercised	(403,236)	\$0.12 — \$2.25
Forfeited	(14,240)	\$2.25
Balance at June 30, 1993	1,774,368	\$0.12 — \$2.25
Granted	—	—
Exercised	(470,216)	\$0.12 — \$2.25
Forfeited	(2,200)	\$2.25
Balance at June 30, 1994	1,301,952	\$0.12 — \$2.25
Granted	—	—
Exercised	(258,770)	\$0.12 — \$2.25
Forfeited	(30,650)	\$2.25
Balance at June 30, 1995	<u>1,012,532</u>	\$0.12 — \$2.25

At June 30, 1995, 893,192 options were exercisable. There have been 1,940,786 options exercised under the 1985 Plan.

Stock incentive plan — In December 1987, the Company's Board of Directors adopted a stock incentive plan ("the 1987 Plan"). The 1987 Plan provides for the grant of options to purchase common stock and awards of restricted common stock to employees and independent contractors of the Company. The 1987 Plan is administered by the Compensation Committee of the Board of Directors. The total number of shares of common stock that may be issued pursuant to options granted under the 1987 Plan or pursuant to stock awards is 4,008,000. The issued options vest over three-, four- or five-year periods and are exercisable for ten years following the date of grant.

AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes stock incentive option activity under the 1987 Plan:

	Number of shares	Option price per share
Balance at June 30, 1992	3,315,264	\$0.25 — \$2.25
Granted	—	—
Exercised	(1,113,428)	\$0.25 — \$2.25
Forfeited	(14,600)	\$0.50
Balance at June 30, 1993	2,187,236	\$0.25 — \$2.25
Granted	—	—
Exercised	(727,624)	\$0.25 — \$2.25
Forfeited	—	—
Balance at June 30, 1994	1,459,612	\$0.25 — \$2.25
Granted	—	—
Exercised	(648,044)	\$0.25 — \$2.25
Forfeited	(20,000)	\$0.50
Balance at June 30, 1995	<u>791,568</u>	\$0.25 — \$2.25

At June 30, 1995, 776,968 options were exercisable. There have been 3,160,884 options exercised under the 1987 Plan.

1992 Employee, Director and Consultant Stock Option Plan — In February 1992, the Company approved and adopted an employee, director and consultant stock option plan ("the 1992 Plan"). The 1992 Plan provides for the grant of either incentive stock options or non-qualified stock options. Incentive stock options may be granted under the 1992 Plan to employees of the Company and its affiliates. Non-qualified stock options may be granted to consultants, directors, employees or officers of the Company and its affiliates. The 1992 Plan provides for an annual grant to each non-employee director on November 1 of an option to purchase 5,000 shares of common stock at an exercise price equal to the fair market value of the common stock on such date and vesting in one year. The 1992 Plan is administered by the Compensation Committee of the Board of Directors. The total number of shares that may be issued pursuant to options granted under the 1992 Plan is 18,040,000, which includes increases of 4,000,000 shares each, approved by the Board of Directors in January and July 1995, that are subject to the approval of the stockholders of the Company at the annual stockholders meeting in October 1995. The issued options vest over one-, three- or four-year periods and are exercisable for ten years following the date of grant.

	Number of shares	Option price per share
Balance at June 30, 1992	12,000	\$3.56
Granted	3,215,400	\$3.18 — \$ 9.18
Exercised	—	—
Forfeited	(8,000)	\$3.68
Balance at June 30, 1993	3,219,400	\$3.18 — \$ 9.18
Granted	1,458,600	\$9.31 — \$18.25
Exercised	(187,640)	\$3.18 — \$ 7.50
Forfeited	(107,200)	\$3.18 — \$18.00
Balance at June 30, 1994	4,383,160	\$3.18 — \$18.25
Granted	11,793,598	\$13.90 — \$44.00
Exercised	(431,802)	\$3.18 — \$18.25
Forfeited	(460,200)	\$3.18 — \$37.69
Balance at June 30, 1995	<u>15,284,756</u>	\$3.18 — \$44.00

AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At June 30, 1995, 1,491,674 options were exercisable. There have been 619,442 options exercised under the 1992 Plan.

At June 30, 1995, the Company had 753,947 common stock options outstanding relating to options which were assumed by the Company in connection with various business combinations. The options are exercisable at prices ranging from \$0.34 to \$27.54 and vest over the next four years. At June 30, 1995, 237,478 options were exercisable.

Employee Stock Purchase Plan — In May 1992, the Company's Board of Directors adopted an Employee Stock Purchase Plan ("the ESPP"). Under the ESPP, employees of the Company and its subsidiaries who elect to participate are granted options to purchase common stock at a 15 percent discount from the market value of such stock. The ESPP permits an enrolled employee to make contributions by having withheld from his or her salary an amount between 1 percent and 10 percent of compensation to purchase shares of common stock. The ESPP is administered by the Compensation Committee of the Board of Directors. The total number of shares of common stock that may be issued pursuant to options granted under the ESPP is 400,000. A total of 110,885 shares of common stock have been issued under the ESPP.

12. Employee Benefit Plan

Savings Plan — The Company has a savings plan ("the Savings Plan") that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, participating employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. The Company matches 50% of each employee's contributions up to a maximum of 4% of the employee's earnings. The Company's matching contribution to the Savings Plan was approximately \$358,000 and \$168,000 in the years ended June 30, 1995 and 1994, respectively.

13. Subsequent Event

On August 23, 1995, the Company entered into a stock purchase agreement to purchase Ubique, Ltd., an Israeli company. The Company has agreed to pay approximately \$15 million (\$1.5 million in cash and \$13.5 million in common stock) in the transaction, which is to be accounted for under the purchase method of accounting. Subject to the results of an in-process valuation, a substantial portion of the purchase price may be allocated to in-process research and development and charged to the Company's operations in the first quarter of fiscal 1996.

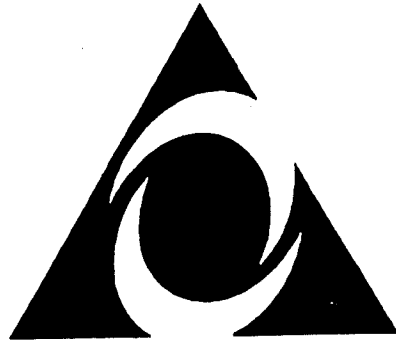
AMERICA ONLINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Quarterly Information (unaudited)

	QUARTER ENDED				
	September 30,	December 31,	March 31,	June 30,	Total
Fiscal 1995(1)					
Online service revenues	\$50,056	\$ 69,712	\$ 99,814	\$138,916	\$358,498
Other revenues	6,880	6,683	9,290	12,939	35,792
Total revenues	56,936	76,395	109,104	151,855	394,290
Income (loss) from operations	4,623	(35,258)	233	11,108	(19,294)
Net income (loss)	1,481	(38,730)	(2,587)	6,189	(33,647)
Net income (loss) per share(2)	\$ 0.04	\$ (0.20)	\$ (0.07)	\$ 0.13	\$ (0.99)
Fiscal 1994					
Online service revenues	\$14,299	\$ 20,292	\$ 28,853	\$ 37,549	\$100,993
Other revenues	4,780	4,239	8,836	2,874	14,729
Total revenues	19,079	24,531	31,689	40,423	115,722
Income from operations	531	520	1,931	1,626	4,608
Net income	303	70	1,272	905	2,550
Net income per share(2)	\$ 0.01	\$ —	\$ 0.03	\$ 0.02	\$ 0.07

- (1) Historical financial information for amounts previously reported in fiscal 1995 has been adjusted to account for pooling of interest transactions.
- (2) The sum of per-share earnings (loss) does not equal earnings (loss) per share for the year due to equivalent share calculations which are impacted by the Company's loss in 1995 and by fluctuations in the Company's common stock market prices.



AMERICA ONLINE
I N C O R P O R A T E D

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following table sets forth the expenses that are expected to be incurred in connection with the offering of the Shares. All such expenses shall be borne by the Company. All amounts set forth below are estimates, other than the SEC registration fee and NASD filing fee.

SEC registration fee	\$ 90,476
NASD filing fee	26,738
Blue Sky fees and expenses	15,000
Printing and engraving expenses	80,000
Legal fees and expenses	50,000
Accounting fees and expenses	35,000
Transfer agent and registrar fees and expenses	10,000
Miscellaneous	<u>42,786</u>
Total	\$350,000

Item 15. Indemnification of Directors and Officers.

Section 145(a) of the General Corporation Law of the State of Delaware ("Delaware Corporation Law") provides, in general, that a corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he is or was a director or officer of the corporation. Such indemnity may be against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, if the indemnified party acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and if, with respect to any criminal action or proceeding, the indemnified party did not have reasonable cause to believe his conduct was unlawful.

Section 145(b) of the Delaware Corporation Law provides, in general, that a corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the corporation, against any expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation.

Section 145(g) of the Delaware Corporation law provides, in general, that a corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation against any liability asserted against him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of the law.

Pursuant to Section 102(b)(7) of the Delaware General Corporation Law (the "Delaware Statute"), Article Ninth of the Registrant's Restated Certificate of Incorporation (the "Certificate of Incorporation") (incorporated by reference herein) provides that:

To the fullest extent permitted by the Delaware General Corporation Law as the same now exists or may hereafter be amended, the Corporation shall indemnify, and advance expenses to, its directors and officers and any person who is or was serving at the request of the Corporation as a director or officers, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The Corporation, by action of its board of directors, may provide indemnification or advance expenses to employees and agents of the Corporation or other persons only on such terms and conditions and to the extent determined by the board of directors in its sole and absolute discretion.

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article Ninth shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any By-Law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under this Article Ninth.

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article Ninth shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such officer or director. The indemnification and advancement of expenses that may have been provided to an employee or agent of the Corporation by action of the board of directors, pursuant to the last sentence of Paragraph 1 of this Article Ninth, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be an employee or agent of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such a person, after the time such person has ceased to be an employee or agent of the Corporation, only on such terms and conditions and to the extent determined by the board of directors in its sole discretion.

In addition, Article Five of the Registrant's Restated By-Laws (Incorporated by reference herein) provides that:

Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or an officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "Indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such Indemnitee in connection therewith; provided, however, that, except as provided in the section "Right of Indemnitees to Bring Suit" of this Article with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such Indemnitee in connection with a proceeding (or part thereof) initiated by such Indemnitee only if such proceeding (or part thereof) was authorized by the board of directors of the Corporation.

Right to Advancement of Expenses. The right to indemnification conferred in Section 1 of this Article shall include the right to be paid by the Corporation the expenses (including attorney's fees) incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law requires, an advancement of expenses incurred by an Indemnitee in his capacity as a director or officer (and not in any other capacity in which service was or is rendered by such Indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such Indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such Indemnitee is not entitled to be indemnified for such expenses under this section or otherwise. The rights to indemnification and to the advancement of expenses conferred in this

section and the section "Right to Indemnification" of this Article shall be contract rights and such rights shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the Indemnitee's heirs, executors and administrators. Any repeal or modification of any of the provisions of this Article shall not adversely affect any right or protection of an Indemnitee existing at the time of such repeal or modification.

Right of Indemnitees to Bring Suit. If a claim under the sections "Right to Indemnification" and "Right to Advancement of Expenses" of this Article is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the Indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Indemnitee shall also be entitled to be paid the expenses of prosecuting or defending such suit. In (i) any suit brought by the Indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the Indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the Indemnitee has not met any applicable standard for indemnification set forth in the Delaware General Corporation Law. Neither the failure of the Corporation (including its board of directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the Indemnitee is proper in the circumstances because the Indemnitee has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its board of directors, independent legal counsel, or its stockholders) that the Indemnitee has not met such applicable standard of conduct, shall create a presumption that the Indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the Indemnitee, be a defense to such suit. In any suit brought by the Indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the Indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article or otherwise shall be on the Corporation.

Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Corporation's Certificate of Incorporation as amended from time to time, these by-laws, any agreement, any vote of stockholders or disinterested directors or otherwise.

Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

Indemnification of Employees and Agents of the Corporation. The Corporation may, to the extent authorized from time to time by the board of directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

The directors and officers of the Registrant are covered by a policy of liability insurance.

In addition, the Underwriting Agreement, the form of which is filed as Exhibit 1.1 hereto, contains provisions for indemnification by the Underwriters of the Registrant and its officers, directors and controlling stockholders against certain liabilities under the Securities Act.

Item 16. Exhibits and Financial Statement Schedules

(a) The following exhibits are filed herewith or incorporated herein in their entirety by reference:

<u>Exhibit Number</u>	<u>Description</u>
†1.1	Form of Underwriting Agreement
2.1	Agreement and Plan of Reorganization dated as of May 11, 1994, as amended, among Registrant, RCC Acquisition Corporation and RCC Communications Corporation (Filed as Exhibit 2.1 to the Registrant's Registration Statement on Form S-4, Registration No. 33-82030, and incorporated herein by reference)
2.2	Agreement and Plan of Reorganization dated as of November 8, 1994, among the Registrant, BLT Acquisition Corporation, CMG Information Services, Inc. and BookLink Technologies, Inc. (Filed as Exhibit 1 to the Registrant's Statement on Form 8-K, filed January 9, 1995 and incorporated herein by reference)
2.3	Asset Purchase Agreement by and between Registrant and Advanced Network & Services, Inc. dated November 25, 1994 (Filed as Exhibit 1 to the Registrant's Statement on Form 8-K, filed February 28, 1995 and incorporated herein by reference)
3.1	The Restated Certificate of Incorporation of the Registrant (Filed with the Registrant's Report on Form 10-Q for the quarter ended March 31, 1992, and incorporated by reference herein)
3.2	The Restated By-laws of the Registrant (Filed with the Registrant's Report on Form 10-K for the year ended June 30, 1992, and incorporated by reference herein)
4.1	Form of Common Stock Certificate (Filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-1, Registration Number 33-44585, and incorporated herein by reference)
4.2	Rights Agreement dated as of April 23, 1993, including Exhibit A (Certificate of Designation setting forth the terms of the Series A Junior Participating Preferred Stock, \$.01 par value), Exhibit B (Form of Rights Certificate) and Exhibit C (Summary of Rights to Purchase Series A Junior Participating Preferred Shares) (Filed as Exhibit 4.3 to Registrant's Registration Statement on Form S-4, Registration Number 33-82030, and incorporated herein by reference); First Amendment to the Rights Agreement dated as of January 31, 1995 (Filed with Registrant's Report on Form 8-K, dated February 6, 1995, and incorporated by reference herein)
*5.1	Legal Opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., with respect to the legality of the securities being registered
23.1	Consent of Ernst & Young LLP, independent auditors
*23.2	Consent of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. (included in Exhibit 5.1)
†24	Powers of Attorney

* To be filed by amendment.

† Previously filed.

Item 17. Undertakings

(a) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such

indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Amendment No. 1 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Vienna, Commonwealth of Virginia, on September 25, 1995.

AMERICA ONLINE, INC.

By: /s/ LENNERT J. LEADER

Name: Lennert J. Leader

Title: Senior Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 1 to Registration Statement has been signed by the following persons in the capacities indicated and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
* _____ James V. Kimsey	Chairman of the Board of Directors	September 25, 1995
* _____ Stephen M. Case	President, Chief Executive Officer and Director (Principal Executive Officer)	September 25, 1995
/s/ LENNERT J. LEADER _____ Lennert J. Leader	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	September 25, 1995
* _____ James G. Andress	Director	September 25, 1995
* _____ Frank J. Caufield	Director	September 25, 1995
* _____ Alexander M. Haig, Jr.	Director	September 25, 1995
* _____ William N. Melton	Director	September 25, 1995
* _____ Thomas Middelhoff	Director	September 25, 1995
* _____ Scott C. Smith	Director	September 25, 1995

*By: /s/ LENNERT J. LEADER

Lennert J. Leader

Attorney-in-Fact

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Page</u>
†1.1	Form of Underwriting Agreement	
2.1	Agreement and Plan of Reorganization dated as of May 11, 1994, as amended, among Registrant, RCC Acquisition Corporation and RCC Communications Corporation (Filed as Exhibit 2.1 to the Registrant's Registration Statement on Form S-4, Registration No. 33-82030, and incorporated herein by reference)	
2.2	Agreement and Plan of Reorganization dated as of November 8, 1994, among the Registrant, BLT Acquisition Corporation, CMG Information Services, Inc. and BookLink Technologies, Inc. (Filed as Exhibit 1 to the Registrant's Statement on Form 8-K, filed January 9, 1995 and incorporated herein by reference)	
2.3	Asset Purchase Agreement by and between Registrant and Advanced Network & Services, Inc. dated November 25, 1994 (Filed as Exhibit 1 to the Registrant's Statement on Form 8-K, filed February 28, 1995 and incorporated herein by reference)	
3.1	The Restated Certificate of Incorporation of the Registrant (Filed with the Registrant's Report on Form 10-Q for the quarter ended March 31, 1992, and incorporated by reference herein)	
3.2	The Restated By-laws of the Registrant (Filed with the Registrant's Report on Form 10-K for the year ended June 30, 1992, and incorporated by reference herein)	
4.1	Form of Common Stock Certificate (Filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-1, Registration Number 33-44585, and incorporated herein by reference)	
4.2	Rights Agreement dated as of April 23, 1993, including Exhibit A (Certificate of Designation setting forth the terms of the Series A Junior Participating Preferred Stock, \$.01 par value), Exhibit B (Form of Rights Certificate) and Exhibit C (Summary of Rights to Purchase Series A Junior Participating Preferred Shares) (Filed as Exhibit 4.3 to Registrant's Registration Statement on Form S-4, Registration Number 33-82030, and incorporated herein by reference); First Amendment to the Rights Agreement dated as of January 31, 1995 (Filed with Registrant's Report on Form 8-K, dated February 6, 1995, and incorporated by reference herein)	
*5.1	Legal Opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., with respect to the legality of the securities being registered	
23.1	Consent of Ernst & Young LLP, independent auditors	
*23.3	Consent of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. (included in Exhibit 5.1)	
†24	Powers of Attorney	

* To be filed by amendment.

† Previously filed.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" in the Amendment No. 1 to Registration Statement on Form S-3 and related Prospectus of America Online, Inc. for the registration of 4,025,000 shares of its common stock and to the appearance and the incorporation by reference therein of our report dated August 25, 1995, with respect to the consolidated financial statements of America Online, Inc. included in its Form 10-K for the year ended June 30, 1995 filed with the Securities and Exchange Commission.

Ernst & Young LLP

Vienna, Virginia
September 22, 1995

[3,500,000 Shares]

AMERICA ONLINE, INC.

COMMON STOCK, \$.01 PAR VALUE

UNDERWRITING AGREEMENT

_____, 1995

_____, 1995

Morgan Stanley & Co. Incorporated
Goldman Sachs & Co.
Merrill Lynch, Pierce, Fenner
& Smith Incorporated
c/o Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Morgan Stanley & Co. International Limited
Goldman Sachs International Limited
Merrill Lynch International Limited
c/o Morgan Stanley & Co. International
Limited
25 Cabot Square
Canary Wharf
London E14 4QA
England

Dear Sirs and Mesdames:

America Online, Inc., a Delaware corporation (the "Company"), proposes to issue and sell to the several Underwriters (as defined below), and certain shareholders of the Company (the "Selling Shareholders") named in Schedule I hereto severally propose to sell to the several Underwriters (as defined below), an aggregate of [3,500,000] shares of the Common Stock of the Company, \$.01 par value (the "Firm Shares"), of which [_,000,000] shares are to be issued and sold by the Company and [1,595,000] shares are to be sold by the Selling Shareholders, each Selling Shareholder selling the amount set forth opposite such Selling Shareholder's name in Schedule I hereto.

It is understood that, subject to the conditions hereinafter stated, _____ Firm Shares (the "U.S. Firm Shares") will be sold to the several U.S. Underwriters named in Schedule II hereto (the "U.S. Underwriters") in connection with the offering and sale of such U.S. Firm Shares in the United States and Canada to United States and Canadian Persons (as such terms are defined in the Agreement Between U.S. and International Underwriters of even date herewith), and _____ Firm Shares (the "International Shares") will be sold to the several International Underwriters named in Schedule III hereto (the "International Underwriters") in connection with the

offering and sale of such International Shares outside the United States and Canada to persons other than United States and Canadian Persons. Morgan Stanley & Co. Incorporated, Goldman Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated shall act as representatives (the "U.S. Representatives") of the several U.S. Underwriters, and Morgan Stanley & Co. International Limited, Goldman Sachs International Limited and Merrill Lynch International Limited shall act as representatives (the "International Representatives") of the several International Underwriters. The U.S. Underwriters and the International Underwriters are hereinafter collectively referred to as the "Underwriters."

The Company also proposes to issue and sell to the several U.S. Underwriters not more than an additional [-00,000] shares of its Common Stock, \$.01 par value (the "Additional Shares") if and to the extent that the U.S. Representatives shall have determined to exercise, on behalf of the U.S. Underwriters, the right to purchase such shares of common stock granted to the U.S. Underwriters in Section 2 hereof. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "Shares." The shares of Common Stock, \$.01 par value of the Company to be outstanding after giving effect to the sales contemplated hereby are hereinafter referred to as the "Common Stock." The Company and the Selling Shareholders are hereinafter sometimes collectively referred to as the "Sellers."

The Company adopted a Rights Agreement on April 23, 1993, which was amended on January 31, 1995. Pursuant to the Rights Agreement, the Common Stock, including the Shares, have attached thereto rights (the "Rights") to purchase additional equity securities under certain defined circumstances. None of such rights are currently exercisable.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement, including a prospectus, relating to the Shares. The registration statement contains two prospectuses to be used in connection with the offering and sale of the Shares: the U.S. prospectus, to be used in connection with the offering and sale of Shares in the United States and Canada to United States and Canadian Persons, and the international prospectus, to be used in connection with the offering and sale of Shares outside the United States and Canada to persons other than United States and Canadian Persons. The international prospectus is identical to the U.S. prospectus except for the outside front cover page. The registration statement as amended at the time it becomes effective, including the information deemed to be part of the

registration statement at the time of effectiveness pursuant to Rule 430A under the Securities Act of 1933, as amended (the "Securities Act"), is hereinafter referred to as the "Registration Statement"; the U.S. prospectus and the international prospectus in the respective forms first used to confirm sales of Shares is hereinafter referred to as the "Prospectus" (including, in the case of all references to the Registration Statement and the Prospectus, documents incorporated therein by reference). If the Company has filed an abbreviated registration statement to register additional shares of Common Stock pursuant to Rule 462(b) under the Securities Act (the "Rule 462 Registration Statement"), then any reference herein to the term "Registration Statement" shall be deemed to include such Rule 462 Registration Statement. The terms "supplement" and "amendment" or "amend" as used in this Agreement shall include all documents subsequently filed by the Company with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are deemed to be incorporated by reference in the Prospectus.

1. **Representations and Warranties of the Company.** The Company represents and warrants to and agrees with each of the Underwriters that:

(a) The Registration Statement has become effective; no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or threatened by the Commission.

(b) (i) Each document, if any, filed or to be filed pursuant to the Exchange Act, and incorporated by reference in the Prospectus complied or will comply when so filed in all material respects with the Exchange Act and the applicable rules and regulations of the Commission thereunder (ii) each part of the Registration Statement, when such part became effective, did not contain and each such part, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (iii) the Registration Statement and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder and (iv) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a

material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph 1(b) do not apply to statements or omissions in the Registration Statement or the Prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein.

(c) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(d) Each subsidiary of the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(e) This Agreement has been duly authorized, executed and delivered by the Company.

(f) The authorized capital stock of the Company conforms as to legal matters to the description thereof contained in the Prospectus.

(g) The shares of Common Stock (including the Shares to be sold by the Selling Shareholders) outstanding prior to the issuance of the Shares to be sold by the Company have been duly authorized and are validly issued, fully paid and non-assessable.

(h) The Shares to be sold by the Company have been duly authorized and, when issued and delivered in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar rights.

(i) (1) The Rights to be attached to the Shares to be sold by the Company have been duly authorized and, when the Shares to be sold by the Company have been duly and validly issued in accordance with the terms of this Agreement, will be validly issued.

(2) The Rights attached to the Shares to be sold by the Selling Shareholders have been duly authorized and are validly issued.

(j) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not contravene any provision of applicable law or the certificate of incorporation or by-laws of the Company or any agreement or other instrument binding upon the Company or any of its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company or any subsidiary, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except such as may be required by the Securities Act and the applicable rules and regulations of the Commission thereunder (all of which have been obtained) and the securities or Blue Sky laws of the various states in connection with the offer and sale of the Shares.

(k) There has not occurred any material adverse change, or any development involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement).

(l) There are no legal or governmental proceedings pending or, to the Company's knowledge, threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is

subject that are required to be described in the Registration Statement or the Prospectus and are not so described or any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required.

(m) The Company and each of its subsidiaries have all necessary consents, authorizations, approvals, orders, certificates and permits of and from, and have made all declarations and filings with, all federal, state, local and other governmental authorities, all self-regulatory organizations and all courts and other tribunals, to own, lease, license and use their respective properties and assets and to conduct their business in the manner described in the Prospectus, except to the extent that the failure to obtain or file would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(n) Each preliminary prospectus filed as part of the registration statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the Securities Act, complied when so filed in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder.

(o) The Company is not an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended.

(p) The Company and its subsidiaries (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(q) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company or to require the Company to include such securities with the Shares registered pursuant to the Registration Statement, except for such rights which have been satisfied by including the offering of the Shares of the Selling Shareholders under the Registration Statement or waived.

(r) The Company has complied with all provisions of Section 517.075, Florida Statutes relating to doing business with the Government of Cuba or with any person or affiliate located in Cuba.

2. **Representations and Warranties of the Selling Shareholders.** Each of the Selling Shareholders represents and warrants to and agrees with each of the Underwriters that:

(a) This Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Shareholder.

(b) The execution and delivery by such Selling Shareholder of, and the performance by such Selling Shareholder of its obligations under, this Agreement, the Custody Agreement signed by such Selling Shareholder and _____, as Custodian, relating to the deposit of the Shares to be sold by such Selling Shareholder (the "Custody Agreement") and the Power of Attorney appointing certain individuals as such Selling Shareholder's attorneys-in-fact to the extent set forth therein, relating to the transactions contemplated hereby and by the Registration Statement (the "Power of Attorney") will not contravene any provision of applicable law, or the certificate of incorporation or by-laws of such Selling Shareholder (if such Selling Shareholder is a corporation), or any agreement or other instrument binding upon such Selling Shareholder or any judgment, order or decree of any governmental body, agency or court having jurisdiction over such Selling Shareholder, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by such Selling Shareholder of its obligations under this Agreement or the Custody Agreement or Power of Attorney of such Selling Shareholder, except such as may be required by the

securities or Blue Sky laws of the various states in connection with the offer and sale of the Shares.

(c) Such Selling Shareholder has, and on the Closing Date will have, valid title to the Shares to be sold by such Selling Shareholder and the legal right and power, and all authorization and approval required by law, to enter into this Agreement, the Custody Agreement and the Power of Attorney and to sell, transfer and deliver the Shares to be sold by such Selling Shareholder.

(d) The Shares to be sold by such Selling Shareholder pursuant to this Agreement have been duly authorized and are validly issued, fully paid and non-assessable.

(e) The Custody Agreement and the Power of Attorney have been duly authorized, executed and delivered by such Selling Shareholder and are valid and binding agreements of such Selling Shareholder.

(f) Delivery of the Shares to be sold by such Selling Shareholder pursuant to this Agreement will pass title to such Shares free and clear of any security interests, claims, liens, equities and other encumbrances.

(g) All information furnished by or on behalf of such Selling Shareholder for use in the Registration Statement and Prospectus is, and on the Closing Date will be, true, correct, and complete, and does not, and on the Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make such information not misleading.

In addition to the foregoing, James V. Kimsey also represents and warrants to and agrees with each of the Underwriters that:

(i) Each part of the Registration Statement, when such part became effective, did not contain and each such part, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Registration Statement and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Securities Act and the

applicable rules and regulations of the Commission thereunder and (iii) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to statements or omissions in the Registration Statement or the Prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein.

3. **Agreements to Sell and Purchase.** Each Seller, severally and not jointly, hereby agrees to sell to the several Underwriters, and each Underwriter, upon the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, agrees, severally and not jointly, to purchase from such Seller at \$_____ a share (the "Purchase Price") the number of Firm Shares (subject to such adjustments to eliminate fractional shares as you may determine) that bears the same proportion to the number of Firm Shares to be sold by such Seller as the number of Firm Shares set forth in Schedules II and III hereto opposite the name of such Underwriter bears to the total number of Firm Shares.

On the basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, the Company agrees to sell to the U.S. Underwriters the Additional Shares, and the U.S. Underwriters shall have a one-time right to purchase, severally and not jointly, up to [_00,000] Additional Shares at the Purchase Price. If the U.S. Representatives, on behalf of the U.S. Underwriters, elect to exercise such option, the U.S. Representatives shall so notify the Company in writing not later than 30 days after the date of this Agreement, which notice shall specify the number of Additional Shares to be purchased by the U.S. Underwriters and the date on which such shares are to be purchased. Such date may be the same as the Closing Date (as defined below) but not earlier than the Closing Date nor later than ten business days after the date of such notice. Additional Shares may be purchased as provided in Section 4 hereof solely for the purpose of covering over-allotments made in connection with the offering of the Firm Shares. If any Additional Shares are to be purchased, each U.S. Underwriter agrees, severally and not jointly, to purchase the number of Additional Shares (subject to such adjustments to eliminate fractional shares as you may determine) that bears the same

proportion to the total number of Additional Shares to be purchased as the number of Firm Shares set forth in Schedule II hereto opposite the name of such U.S. Underwriter bears to the total number of Firm Shares. The Additional Shares to be purchased by the U.S. Underwriters hereunder and the U.S. Firm Shares are hereinafter collectively referred to as the "U.S. Shares."

Each Seller hereby agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated, it will not, during the period ending [120] days after the date of the Prospectus, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the sale of the Shares hereunder, (B) the issuance by the Company of shares of Common Stock upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof of which the U.S. Underwriters have been advised in writing or (C) the issuance by the Company of any shares as consideration for future acquisitions or similar transactions; provided the recipients of such Shares agree to be bound by the restrictions of this paragraph for the same 120 day period. In addition, each Selling Shareholder, agrees that, without the prior written consent of the U.S. Representatives, it will not, during the period ending [120] days after the date of the Prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock.

4. Terms of Public Offering. The Sellers are advised by you that the Underwriters propose to make a public offering of their respective portions of the Shares as soon after the Registration Statement and this Agreement have become effective as in your judgment is advisable. The Sellers are further advised by you that the Shares are to be offered to the public initially at U.S. \$_____ a share (the "Public Offering Price") and to certain dealers selected by you at a price that represents a concession not in excess of U.S. \$_____ a share under the Public Offering Price, and that any Underwriter may allow, and such dealers

may reallocate, a concession, not in excess of U.S. \$_____ a share, to any Underwriter or to certain other dealers.

Each U.S. Underwriter hereby makes to and with each Seller the representations and agreements of such U.S. Underwriter contained in the fifth and sixth paragraphs of Article III of the Agreement Between U.S. and International Underwriters of even date herewith. Each International Underwriter hereby makes to and with each Seller the representations and agreements of such International Underwriter contained in the seventh, eighth, ninth and tenth paragraphs of Article III of such Agreement.

5. **Payment and Delivery.** Payment for the Firm Shares shall be made by certified or official bank check or checks payable to the order of the applicable Seller in New York Clearing House funds at the office of Morgan Stanley & Co. Incorporated, 1585 Broadway, New York, New York, at 10:00 A.M., local time, on _____, 1995,¹ or at such other time on the same or such other date, not later than _____, 1995,² as shall be designated in writing by you. The time and date of such payment are hereinafter referred to as the "Closing Date."

Payment for any Additional Shares shall be made by certified or official bank check or checks payable to the order of the Company in New York Clearing House funds at the office of Morgan Stanley & Co. Incorporated, 1585 Broadway, New York, New York, at 10:00 A.M., local time, on the date specified in the notice described in Section 3 or on such other date, in any event not later than _____, 1995,³ as shall be designated in writing by the U.S. Representatives, on behalf of the U.S. Underwriters. The time and date of such payment are hereinafter referred to as the "Option Closing Date."

Certificates for the Firm Shares and Additional Shares shall be in definitive form and registered in such names and in such denominations as you shall request in

¹Insert date 3 business days after date of Underwriting Agreement or, in the event the offering is priced after 4:30 P.M. Eastern Time (and T + 4 settlement is deemed to apply to secondary sales), 4 business days.

²Insert date 10 business days after date of Underwriting Agreement.

³Insert date 10 business days after the expiration of the green shoe option.

writing not later than two full business days prior to the Closing Date or the Option Closing Date, as the case may be. The certificates evidencing the Firm Shares and Additional Shares shall be delivered to you on the Closing Date or the Option Closing Date, as the case may be, for the respective accounts of the several Underwriters, with any transfer taxes payable in connection with the transfer of the Shares to the Underwriters duly paid, against payment of the Purchase Price therefor.

6. Conditions to the Underwriters' Obligations.

The obligations of the Sellers to sell the Shares to the Underwriters and the several obligations of the Underwriters to purchase and pay for the Shares on the Closing Date are subject to the condition that the Registration Statement shall have become effective not later than [_____] (New York time) on the date hereof.

The several obligations of the Underwriters are subject to the following further conditions:

(a) (i) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any of the Company's securities by any "nationally recognized statistical rating organization," as such term is defined for purposes of Rule 436(g)(2) under the Securities Act, and

(ii) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date there shall not have occurred any change, or any development involving a prospective change (insofar as it can be reasonably foreseen), in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement) that, in your judgment, is material and adverse and that makes it, in your judgment, impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

(b) (i) The Underwriters shall have received on the Closing Date a certificate, dated the Closing Date and signed by an executive officer of the Company, to the effect that the representations and warranties of the Company contained in this Agreement are true and

correct as of the Closing Date and that the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before the Closing Date. In addition, the Underwriters shall have received such further certificates and documents confirming the representations and warranties contained herein and related matters as the Underwriters may reasonably have requested.

The officer signing and delivering such certificates may rely upon the best of his or her knowledge as to proceedings threatened.

(ii) The Underwriters shall have received on the Closing Date a certificate, dated the Closing Date and signed by each Selling Shareholder, to the effect that the representations and warranties of such Selling Stockholder contained in this Agreement are true and correct as of the Closing Date and that such Selling Stockholder has complied with all of the agreements, and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before the Closing Date.

(c) The Underwriters shall have received on the Closing Date an opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., outside counsel for the Company, dated the Closing Date, to the effect that:

(i) the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole;

(ii) each subsidiary of the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the

Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole;

(iii) the authorized capital stock of the Company conforms as to legal matters to the description thereof contained in the Prospectus;

(iv) the shares of Common Stock (including the Shares to be sold by the Selling Shareholders) outstanding prior to the issuance of the Shares to be sold by the Company have been duly authorized and are validly issued, fully paid and non-assessable;

(v) the Shares to be sold by the Company have been duly authorized and, when issued and delivered in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar rights;

(vi) the Rights to be attached to the Shares to be sold by the Company have been duly authorized and, when the Shares to be sold by the Company have been duly and validly issued in accordance with the terms of this Agreement, will have been validly issued; the Rights attached to the Shares to be sold by the Selling Shareholders have been duly authorized and validly issued;

(vii) this Agreement has been duly authorized, executed and delivered by the Company;

(viii) the execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not contravene (A) the certificate of incorporation or by-laws of the Company or (B) any agreement or other instrument known to such counsel to be binding upon the Company or any of its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or (C) any judgment, order or decree known to such counsel to be applicable to the Company or any governmental

body, agency or court having jurisdiction over the Company or any subsidiary; and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except such as may be required by the Securities Act and the applicable rules and regulations of the Commission thereunder (all of which have been obtained) and the securities or Blue Sky laws of the various states in connection with the offer and sale of the Shares by the U.S. Underwriters;

(ix) the statements (A) in the Prospectus under the captions "Certain United States Federal Tax Considerations for Non-U.S. Holders of Common Stock", ~~"Description of Capital Stock" and "Underwriters"~~ (B) in the Registration Statement in Item 15 and (C) in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995 under Item 3, Legal Proceedings in each case constitute general summaries of the legal matters, documents or proceedings referred to therein, and fairly present the information set forth with respect to such legal matters, documents and proceedings;

(x) after due inquiry of the Chief Executive Officer, the Chief Financial Officer and the General Counsel of the Company, such counsel does not know of any legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement or the Prospectus and are not so described or of any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required;

(xi) the Company is not an "investment company" or an entity "controlled" by an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended;

(xii) such counsel (A) is of the opinion that each document filed pursuant to the Exchange Act and incorporated by reference in the

Registration Statement and the Prospectus (except for financial statements and schedules as to which such counsel need not express any opinion) complied when so filed as to form in all material respects with the Exchange Act and the applicable rules and regulations of the Commission thereunder and (B) is of the opinion that the Registration Statement and Prospectus (except for financial statements and schedules included therein as to which such counsel need not express any opinion) comply as to form in all material respects with the Securities Act and the rules and regulations of the Commission thereunder.

In addition to the matters set forth above, such opinion shall also include a statement to the effect that nothing has come to the attention of such counsel which leads them to believe that the Registration Statement or the prospectus included therein, as of the time the Registration Statement became effective or on the date of this Agreement, contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or the Prospectus, as amended or supplemented, as of the Closing Date, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (except that such counsel need express no view as to financial and statistical statements and schedules and other financial and statistical information included therein). In addition, such opinion shall also include a statement that nothing has come to the attention of such counsel which would lead it to believe that the Company and its subsidiaries are not in compliance with all applicable Environmental Laws, non-compliance with which would have a material adverse effect on the Company and its subsidiaries, taken as a whole. With respect to such statements, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. may state that their belief is based upon their participation in the preparation of the Registration Statement and Prospectus and any amendments or supplements thereto and documents incorporated therein by reference and review and discussion of the contents thereof, but is without independent check of verification except as specified.

The opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. described in this paragraph (c) shall

be rendered to you at the request of the Company and shall so state therein.

(d) The Underwriters shall have received on the Closing Date an opinion of _____, counsel for the Selling Shareholders, dated the Closing Date, to the effect that:

(i) this Agreement has been duly authorized, executed and delivered by or on behalf of each of the Selling Shareholders;

(ii) the execution and delivery by each Selling Shareholder of, and the performance by such Selling Shareholder of its obligations under, this Agreement and the Custody Agreement and Powers of Attorney of such Selling Shareholder will not contravene any provision of applicable law, or the certificates of incorporation or by-laws of such Selling Shareholder (if such Selling Shareholder is a corporation), or, to the best of such counsel's knowledge, any agreement or other instrument binding upon such Selling Shareholder or, to the best of such counsel's knowledge, any judgment, order or decree of any governmental body, agency or court having jurisdiction over such Selling Shareholder, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by such Selling Shareholder of its obligations under this Agreement or the Custody Agreement or Power of Attorney of such Selling Shareholder, except such as may be required by the securities or Blue Sky laws of the various states in connection with offer and sale of the Shares;

(iii) each of the Selling Shareholders has valid title to the Shares to be sold by such Selling Shareholder and has the legal right and power, and all authorization and approval required by law, to enter into this Agreement and the Custody Agreement and Power of Attorney of such Selling Shareholder and to sell, transfer and deliver the Shares to be sold by such Selling Shareholder;

(iv) the Custody Agreement of each Selling Shareholder has been duly authorized, executed and delivered by such Selling Shareholder and is a

valid and binding agreement of such Selling Shareholder; and

(v) delivery of the Shares to be sold by each Selling Shareholder pursuant to this Agreement will pass title to such Shares free and clear of any security interests, claims, liens, equities and other encumbrances.

With respect to paragraph (d) above, _____ may rely upon an opinion or opinions of counsel for any Selling Shareholders and, to the extent such counsel deems appropriate, as to matters of fact upon the representations of each Selling Shareholder contained herein and in the Custody Agreement and Power of Attorney of such Selling Shareholder and in other documents and instruments; provided that (A) each such counsel for the Selling Shareholders is satisfactory to your counsel, (B) a copy of each opinion so relied upon is delivered to you and is in form and substance satisfactory to your counsel, (C) copies of such Custody Agreements and Powers of Attorney and of any such other documents and instruments shall be delivered to you and shall be in form and substance satisfactory to your counsel and (D) _____ shall state in their opinion that they are justified in relying on each such other opinion.

The opinion of _____ (and any opinions of counsel for any Selling Shareholder referred to in the immediately preceding paragraph) shall be rendered to you at the request of one or more of the Selling Shareholders and shall so state therein.

(e) The Underwriters shall have received on the Closing Date an opinion of Davis Polk & Wardwell, counsel for the Underwriters, dated the Closing Date, covering the matters referred to in subparagraphs (v), (vi), (vii), (ix) (but only as to the statements in the Prospectus under "Underwriters") and clause (B) of (xii) of paragraph (c) above.

In addition to the matters set forth above, such opinion shall also state that such counsel has no reason to believe that (except for financial and statistical statements and schedules and other financial and statistical information as to which such counsel need not express any belief) the Registration Statement or the prospectus included therein, at the time the Registration Statement became effective or on the date of this Agreement contained any untrue

statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and has no reason to believe that (except for financial and statistical Statements and schedules and other financial and statistical information as to which such counsel need not express any belief) the Prospectus, as amended or supplemented, as of the Closing Date contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. With respect to the foregoing statement as well as clause (B) of subparagraph (xii) of paragraph (c) above, Davis Polk & Wardwell may state that their opinion and belief are based upon their participation in the preparation of the Registration Statement and Prospectus and any amendments or supplements thereto (other than the documents incorporated by reference therein) and review and discussion of the contents thereof (including the documents incorporated by reference therein), but are without independent check of verification except as specified.

(f) The Underwriters shall have received, on each of the date hereof and the Closing Date, a letter dated the date hereof or the Closing Date, as the case may be, in form and substance satisfactory to the Underwriters, from Ernst & Young LLP, independent public accountants, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in or incorporated by reference into the Registration Statement and the Prospectus; provided that the letter delivered on the Closing Date shall use a "cut-off date" not earlier than the date hereof.

(g) The "lock-up" agreements, each substantially in the form of Exhibit A hereto, between you and certain shareholders, officers and directors of the Company relating to sales and certain other dispositions of shares of Common Stock or certain other securities, delivered to you on or before the date hereof, shall be in full force and effect on the Closing Date.

The several obligations of the U.S. Underwriters to purchase Additional Shares hereunder are subject to the

delivery to the U.S. Representatives on the Option Closing Date of such documents as they may reasonably request with respect to the good standing of the Company, the due authorization and issuance of the Additional Shares and other matters related to the issuance of the Additional Shares.

7. Covenants of the Company. In further consideration of the agreements of the Underwriters herein contained, the Company covenants with each Underwriter as follows:

(a) To furnish to you, without charge, four signed copies of the Registration Statement (including exhibits thereto and documents incorporated by reference) and for delivery to each other Underwriter a conformed copy of the Registration Statement (without exhibits thereto but including, at your request, documents incorporated by reference) and to furnish to you in New York City, without charge, prior to 5:00 P.M. local time on the business day following the date of this Agreement and during the period mentioned in paragraph (c) below, as many copies of the Prospectus, any documents incorporated therein by reference and any supplements and amendments thereto or to the Registration Statement as you may reasonably request.

(b) Before amending or supplementing the Registration Statement or the Prospectus, to furnish to you a copy of each such proposed amendment or supplement and not to file any such proposed amendment or supplement to which you reasonably object, and to file with the Commission within the applicable period specified in Rule 424(b) under the Securities Act any prospectus required to be filed pursuant to such Rule.

(c) If, during such period after the first date of the public offering of the Shares as in the opinion of counsel for the Underwriters the Prospectus is required by law to be delivered in connection with sales by an Underwriter or dealer, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Prospectus to comply with applicable law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriters and to the dealers (whose names and addresses you will furnish

to the Company) to which Shares may have been sold by you on behalf of the Underwriters and to any other dealers upon request, either amendments or supplements to the Prospectus so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances when the Prospectus is delivered to a purchaser, be misleading or so that the Prospectus, as amended or supplemented, will comply with law.

(d) To endeavor to qualify the Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions as you shall reasonably request.

(e) To make generally available to the Company's security holders and to you as soon as practicable an earning statement covering the twelve-month period ending [September 30, 1996]⁴ that satisfies the provisions of Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder.

8. **Expenses.** Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Sellers agree to pay or cause to be paid all expenses incident to the performance of their obligations under this Agreement, including: (i) the fees, disbursements and expenses of the Company's counsel, the Company's accountants and counsel for the Selling Shareholders in connection with the registration and delivery of the Shares under the Securities Act and all other fees or expenses in connection with the preparation and filing of the Registration Statement, any preliminary prospectus, the Prospectus and amendments and supplements to any of the foregoing, including all printing costs associated therewith, and the mailing and delivering of copies thereof to the Underwriters and dealers, in the quantities hereinabove specified, (ii) all costs and expenses related to the preparation, transfer and delivery of the Shares to the Underwriters, including any transfer or other taxes payable thereon, (iii) the cost of printing, producing and delivering to the Underwriters any Blue Sky or Legal Investment memorandum in connection with the offer and sale of the Shares under state securities laws and all expenses in connection with the qualification of the Shares for offer and sale under state securities laws as provided in Section 7(d) hereof, including filing fees and the reasonable fees and disbursements of counsel for the

⁴Insert date one year after the end of the Company's fiscal quarter in which the closing will occur.

Underwriters in connection with such qualification and in connection with the Blue Sky or Legal Investment memorandum, (iv) all filing fees and disbursements of counsel to the Underwriters incurred in connection with the review and qualification of the Offering by the National Association of Securities Dealers, Inc., (v) the cost of printing certificates representing the Shares, (vi) the costs and charges of any transfer agent, registrar or depositary, (vii) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the Offering, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, travel and lodging expense of the representatives and officers of the Company and any such consultants, and the cost of any aircraft chartered in connection with the road show, (viii) all document production charges and expenses of Davis Polk & Wardwell, special counsel for the Underwriters (but not including their fees for professional services), in connection with the preparation of this Agreement, and (ix) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section.

The provisions of this Section shall not supersede or otherwise affect any agreement that the Sellers may otherwise have for the allocation of such expenses among themselves.

9. **Indemnity and Contribution.** (a) Each of the Company and James V. Kimsey, jointly and severally, agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred by any Underwriter or any such controlling person in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, except insofar as such losses, claims,

damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein. Notwithstanding the foregoing, the Company and James V. Kimsey will not be liable to any Underwriter or controlling person thereof in any such case to the extent that such losses, claims, damages, liabilities or expenses arise out of or are based upon an untrue statement or alleged untrue statement, or omission or alleged omission made in any Preliminary Prospectus if (i) such Underwriter failed to send or deliver the Prospectus with or prior to the delivery of written confirmation of the sale of Shares to the person asserting such loss, claim, damage liability or expense, and who purchased such Shares from such Underwriter and (ii) such untrue statement or omission was corrected in the Prospectus.

(k) Each Selling Shareholder agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, and each Underwriter and each person, if any, who controls any Underwriter within the meaning of either such section, from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Selling Shareholder furnished in writing by or on behalf of such Selling Shareholder expressly for use in the Registration Statement, any preliminary prospectus, the Prospectus or any amendments or supplements thereto.

(c) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, the Selling Shareholders, the directors of the Company, the officers of the Company who sign the Registration Statement and each person, if any, who controls the Company or any Selling Shareholder within the meaning of either Section 15

of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Underwriter furnished to the Company in writing by such Underwriter through you expressly for use in the Registration Statement, any preliminary prospectus, the Prospectus or any amendments or supplements thereto.

(d) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to paragraph (a), (b) or (c) of this Section 9, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding in a timely manner. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for (a) the fees and expenses of more than one separate firm (in addition to any local counsel) for all Underwriters and all persons, if any, who control any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, (b) the fees and expenses of more than one separate firm (in

addition to any local counsel) for the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of either such Section and (c) the fees and expenses of more than one separate firm (in addition to any local counsel) for all Selling Shareholders and all persons, if any, who control any Selling Shareholder within the meaning of either such Section, and that all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firm for the Underwriters and such control persons of Underwriters, such firm shall be designated in writing by Morgan Stanley & Co. Incorporated. In the case of any such separate firm for the Company, and such directors, officers and control persons of the Company, such firm shall be designated in writing by the Company. In the case of any such separate firm for the Selling Shareholders and such controlling persons of Selling Shareholders, such firm shall be designated in writing by the persons named as attorneys-in-fact for the Selling Shareholders under the Powers of Attorney. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second and third sentences of this paragraph, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(e) To the extent the indemnification provided for in paragraph (a), (b) or (c) of this Section 9 is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages or liabilities

referred to therein, then each indemnifying party under such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party or parties on the other hand from the offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the indemnifying party or parties on the one hand and of the indemnified party or parties on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Sellers on the one hand and the Underwriters on the other hand in connection with the offering of the Shares shall be deemed to be in the same respective proportions as the net proceeds from the offering of the Shares (before deducting expenses) received by each Seller and the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover of the Prospectus, bear to the aggregate Public Offering Price of the Shares. The relative fault of the Sellers on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Sellers or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Underwriters' respective obligations to contribute pursuant to this Section 9 are several in proportion to the respective number of Shares they have purchased hereunder, and not joint.

(f) The Sellers and the Underwriters agree that it would not be just or equitable if contribution pursuant to this Section 9 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (e) of this Section 9. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party

in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 9 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

(g) The indemnity and contribution provisions contained in this Section 9 and the representations, warranties and other statements of the Company and the Selling Shareholders contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, any Selling Shareholder or any person controlling any Selling Shareholder, or the Company, its officers or directors or any person controlling the Company and (iii) acceptance of and payment for any of the Shares.

10. **Termination.** This Agreement shall be subject to termination by notice given by you to the Sellers, if (a) after the execution and delivery of this Agreement and prior to the Closing Date (i) trading generally shall have been suspended or materially limited on or by, as the case may be, any of the New York Stock Exchange, the American Stock Exchange, the National Association of Securities Dealers, Inc., the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or the Chicago Board of Trade, (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market, (iii) a general moratorium on commercial banking activities in New York shall have been declared by either Federal or New York State authorities or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in your judgment, is material and adverse and (b) in the case of any of the events specified in clauses (a)(i) through (iv), such event, singly or together with any other such event, makes it, in your judgment, impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

11. Effectiveness; Defaulting Underwriters. This Agreement shall become effective upon the later of (x) execution and delivery hereof by the parties hereto and (y) release of notification of the effectiveness of the Registration Statement by the Commission.

If, on the Closing Date or the Option Closing Date, as the case may be, any one or more of the Underwriters shall fail or refuse to purchase Shares that it has or they have agreed to purchase hereunder on such date, and the aggregate number of Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of the Shares to be purchased on such date, the other Underwriters shall be obligated severally in the proportions that the number of Firm Shares set forth opposite their respective names in Schedule II or Schedule III bears to the aggregate number of Firm Shares set forth opposite the names of all such non-defaulting Underwriters, or in such other proportions as you may specify, to purchase the Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase on such date; provided that in no event shall the number of Shares that any Underwriter has agreed to purchase pursuant to this Agreement be increased pursuant to this Section 11 by an amount in excess of one-ninth of such number of Shares without the written consent of such Underwriter. If, on the Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Firm Shares and the aggregate number of Firm Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Firm Shares to be purchased, and arrangements satisfactory to you, and the Sellers for the purchase of such Firm Shares are not made within 36 hours after such default, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter or Seller. In any such case either you or the relevant Sellers shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and in the Prospectus or in any other documents or arrangements may be effected. If, on the Option Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Additional Shares and the aggregate number of Additional Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Additional Shares to be purchased, the non-defaulting Underwriters shall have the option to (i) terminate their obligation hereunder to purchase Additional Shares or (ii) purchase not less than the number of Additional Shares that such non-defaulting Underwriters would have been obligated to purchase in the absence of such default. Any action taken under this

paragraph shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

If this Agreement shall be terminated by the Underwriters, or any of them, because of any failure or refusal on the part of any Seller to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason any Seller shall be unable to perform its obligations under this Agreement, the Sellers will reimburse the Underwriters or such Underwriters as have so terminated this Agreement with respect to themselves, severally, for all out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by such Underwriters in connection with this Agreement or the offering contemplated hereunder, but the Sellers shall not in any event be liable to any of the Underwriters for damages on account of loss of anticipated profits from the sale by them of the Shares.

12. Counterparts. This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

13. Applicable Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York.

14. Headings. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

Very truly yours,

AMERICA ONLINE, INC.

By _____
Name:
Title:

The Selling Shareholders
named in Schedule I hereto,
acting severally

By Attorney-in-Fact

Accepted as of the date hereof
Morgan Stanley & Co. Incorporated
Goldman Sachs & Co.
Merrill Lynch, Pierce, Fenner
& Smith Incorporated

Acting severally on behalf of themselves and the
several U.S. Underwriters
named in Schedule II hereto.

By: Morgan Stanley & Co.
Incorporated

By _____
Name:
Title:

Accepted as of the date hereof
Morgan Stanley & Co. International Limited
Goldman Sachs International Limited
Merrill Lynch International Limited

Acting severally on behalf of themselves and the
several International Underwriters
named in Schedule III hereto.

By: Morgan Stanley & Co.
International Limited

By _____
Name:
Title:

SCHEDULE I

<u>Selling Shareholder</u>	<u>Number of Firm Shares To Be Sold</u>
[CMG]	1,020,000
[James V. Kimsey]	200,000
[Navisoft]	175,000
[GNN]	100,000
[Medior]	50,000
[WAIS]	50,000

Total.....

1,595,000
=====

SCHEDULE II
U.S. Underwriters

<u>Underwriter</u>	<u>Number of Firm Shares To Be Purchased</u>
Morgan Stanley & Co. Incorporated	
Goldman Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	

Total U.S. Firm Shares.....

Schedule III
International Underwriters

<u>Underwriter</u>	Number of Firm Shares <u>To Be Purchased</u>
Morgan Stanley & Co. International Limited	
Goldman Sachs International Limited	
Merrill Lynch & Co. International Limited	

Total International Firm Shares

=====

[Form of Lock-up Contract]

_____, 1995

Morgan Stanley & Co. Incorporated
Goldman Sachs & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
c/o Morgan Stanley & Co. Incorporated
1585 Broadway
New York, NY 10036

Morgan Stanley & Co. International Limited
Goldman Sachs International Limited
Merrill Lynch International Limited
c/o Morgan Stanley & Co. International
Limited
25 Cabot Square
Canary Wharf
London E14 4Qa
England

Dear Sirs:

The undersigned understands that Morgan Stanley & Co. Incorporated, Goldman Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as U.S. Representatives of the several U.S. Underwriters (the "U.S. Underwriters"), and Morgan Stanley & Co. International Limited, Goldman Sachs International Limited and Merrill Lynch International Limited, as representatives of the several international underwriters (together with the U.S. Underwriters, the "Underwriters") propose to enter into an Underwriting Agreement with America Online, Inc., a Delaware corporation (the "Company") providing for the public offering (the "Public Offering") by the several Underwriters, including yourselves, of an aggregate of [_,000,000] shares (the "Shares") of the Common Stock, \$.01 par value of the Company (the "Common Stock"), of which [_,000,000] are to be issued and sold by the Company and [_,000,000] shares are to be sold by certain shareholders of the Company (the "Selling Shareholders").

In consideration of the Underwriters' agreement to purchase and make the Public Offering of the Shares, and for other good and valuable consideration receipt of which is hereby acknowledged, the undersigned hereby agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the Underwriters, it will not, beginning on the date hereof and ending [120] days after the date of the Prospectus, (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. In addition, the undersigned agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the Underwriters, it will not, during the period beginning the date hereof and ending [120] days after the date of the Prospectus, make any demand for or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock.

Very truly yours,

(Name)

(Address)

SCHEDULE OF SELLING SHAREHOLDERS

<u>Name and Address</u>	<u>Shares Offered in the Offering</u>
Brewster Kahle c/o Wide Area Information Servers, Inc. 690 Fifth Street San Francisco, CA 94107 Telephone: (415) 356-5400 Telecopier: (415) 356-5444	40,000
WS Investment Co. 95.A c/o Wilson, Sonsini, Goodrich & Rasati, P.C. 650 Page Mill Road Palo Alto, CA 94304-1050 Telephone: (415) 493-9300 Telecopier: (415) 493-6811	22,500
Allen L. Morgan c/o Wilson, Sonsini, Goodrich & Rasati, P.C. 650 Page Mill Road Palo Alto, CA 94304-1050 Telephone: (415) 493-9300 Telecopier: (415) 493-6811	110
O'Reilly & Associates, Inc. 103A Morris Street Sebastopol, CA 95472 Attn: President Telephone: (707) 829-0515 Telecopier: (707)	126,300
Timothy O'Reilly 103A Morris Street Sebastopol, CA 95472 Telephone: (707) 829-0515 Telecopier: (707)	20,000

Dale Dougherty
103A Morris Street
Sebastopol, CA 95472
Telephone: (707) 829-0515
Telecopier: (707)

15,000

David Goldman
Medior, Inc.
2655 Campus Drive, Suite 200
San Mateo, CA 94403
Telephone: (415) 525-4000
Telecopier: (415) 525-4199

25,000

Gideon Hixon Fund
Attn: Benson K. Whitney
1900 Foshay Tower
821 Marquette Avenue
Minneapolis, MN 55402
Telephone: (612) 337-5999
Telecopier: (612) 337-5997

6,000

CMG Information Services, Inc.
187 Ballardvale Street, Suite B110
Wilmington, MA 01887
Telephone: (508) 657-7000
Telecopier: (508) 657-7492

1,020,000

Systems Research and Applications Corporation
200 15th Street North
Arlington, VA 22201
Telephone: (703) 558-4724
Telecopier: (703) 558-4788

44,012

OS II L.P.
10153 1/2 Riverside Drive, #598
Toluca Lake, CA 91602
Telephone: (818) 559-5525
Telecopier: (818) 559-5617

25,000

William H. Albright
9497 Beach Mill Road
Great Falls, VA 22066
Telephone: (703) 759-6789
Telecopier: (703)

19,708

James G. Davidson
1324 Gillespie Street, #D
Santa Barbara, CA 93101
Telephone: (805) 882-2350
Telecopier: (805) 899-4316

310

David Long
2128 Red Rose Way
Santa Barbara, CA 93109
Telephone: (805) 882-2350
Telecopier: (805) 899-4316

310

Douglas M. McKee
441 Vereda Leyenda
Goleta, CA 93117
Telephone: (805) 882-2350
Telecopier: (805) 899-4316

310

George W. Williams
444 Allen Road
Santa Barbara, CA 93109
Telephone: (805) 882-2350
Telecopier: (805) 899-4316

310

James V. Kimsey
c/o America Online, Inc.
8619 Westwood Center Drive
Vienna, VA 22185
Telephone: (703) 883-1558
Telecopier: (703) 883-1509

200,000

TOTAL **1,564,870**

AMERICA ONLINE, INC.

SELLING SHAREHOLDER'S IRREVOCABLE POWER OF ATTORNEY

Stephen M. Case
Lennert J. Leader
Ellen M. Kirsh
America Online, Inc.
8619 Westwood Center Drive
Vienna, Virginia 22182-2285

Ladies and Gentlemen:

The undersigned, America Online, Inc. (the "Company") and certain other holders of the Company's common stock (such holders and the undersigned being hereinafter sometimes collectively referred to as the "Selling Shareholders"), propose to enter into an Underwriting Agreement (the "Underwriting Agreement") with Morgan Stanley & Co. Incorporated, Goldman Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Alex. Brown & Sons Incorporated, as U.S. representatives of the several U.S. underwriters (the "U.S. Underwriters"), and Morgan Stanley & Co. International Limited, Goldman Sachs International Limited, Merrill Lynch International Limited and Alex. Brown & Sons Incorporated, as international representatives of the several international underwriters, to be named in the Underwriting Agreement (collectively, the "Underwriters"). The Selling Shareholders propose to sell certain authorized and issued shares of the common stock, par value \$.01 per share, of the Company (the "Common Stock") owned by them to the U.S. Underwriters pursuant to the Underwriting Agreement. All items not otherwise defined herein shall have the respective meanings ascribed to them in the Underwriting Agreement. The undersigned hereby irrevocably constitutes and appoints Stephen M. Case, Lennert J. Leader and Ellen M. Kirsh, each with full power and authority to act alone in any matter hereunder and with full power of substitution, the true and lawful attorneys-in-fact (the "Attorneys") of the undersigned with full power in the name of, for and on behalf of, the undersigned with respect to all matters arising in connection with the sale of Common Stock by the undersigned including, but not limited to, the power and authority to take any and all of the following actions:

- (1) To sell and deliver to the several Underwriters up to the number of shares of Common Stock as set forth in Attachment A hereto (such total number of shares as is finally determined by the Attorneys and set forth opposite the name of the undersigned in Schedule II to the Underwriting Agreement are hereinafter referred to as the "Securities"), such Securities to be represented by certificates deposited by the undersigned pursuant to the Letter of Transmittal and Custody Agreement (the "Custody Agreement") between the undersigned and the Company, as Custodian (the "Custodian"), at a purchase

price per share to be paid by the Underwriters as the Attorneys, or any one of them, in their sole discretion shall determine, but at the same price per share at which the Company and all other Selling Shareholders sell Common Stock to the Underwriters and on such other terms as are determined by the Attorneys;

- (2) For the purpose of effecting such sale, to negotiate, execute, deliver and perform the Underwriting Agreement and in conjunction with the Representatives and a committee of the Board of Directors of the Company to determine the public offering price and the purchase price per share of Common Stock to be paid by the Underwriters as determined by the Attorneys (subject to paragraph (1) above) and the other terms of sale in accordance with the Underwriting Agreement (including the provisions for exercise of the Underwriters' over-allotment option), with full power to make such amendments to the Underwriting Agreement as the Attorneys in their sole discretion may deem advisable;
- (3)(a) To deliver the Custody Agreement and the certificates and other documents included therewith to the Custodian;
- (b) To give such orders and instructions to the Custodian as the Attorneys may determine with respect to (i) the transfer on the books of the Company of any shares of Common Stock to be sold by the undersigned to the Underwriters in order to effect such sale (including the names in which new certificates for shares of Common Stock are to be issued and the denominations thereof), (ii) the delivery to or for the account of the Underwriters of the certificates for the Securities against receipt by the Custodian or its agent of the purchase price to be paid therefor, (iii) the payment, out of the proceeds (net of underwriting discounts) from the sale of the Securities by the undersigned to the Underwriters, of any expense incurred in accordance with paragraph (5) which is not payable by the Company, and (iv) the return to the undersigned of new certificates representing the number of shares of Common Stock, if any, represented by certificates deposited with the Custodian which are in excess of the number of shares of Common Stock sold by the undersigned to the Underwriters; and (b) to amend the Custody Agreement and the Underwriting Agreement and any related documents in such manner as the Attorneys may determine to be in the best interests of the undersigned;
- (4) On behalf of the undersigned, to make the representations and warranties and enter into the agreements contained in the Underwriting Agreement (including, without limitation, the restriction on sales or other dispositions of shares of Common Stock and securities convertible into or exercisable or exchangeable for shares of Common Stock by the undersigned);

- (5) To incur any necessary or appropriate expense in connection with the sale of the Securities;
- (6) To approve on behalf of the undersigned any amendments to the Registration Statement or the Prospectus;
- (7) To retain legal counsel to represent the undersigned in connection with any and all matters referred to herein (which counsel may, but need not be, counsel for the Company);
- (8) To make, execute, acknowledge and deliver all such other contracts, stock powers, orders, receipts, notices, instructions, certificates, letters and other writings, including, without limitation, requests for the acceleration of the effectiveness of the Registration Statement, and other communications to the Securities and Exchange Commission (the "Commission"), and amendments to the Underwriting Agreement, and in general to do all things and to take all actions which the Attorneys, in their sole discretion, may consider necessary or proper in connection with or to carry out the aforesaid sale of shares to the Underwriters and the public offering thereof, as fully as could the undersigned if personally present and acting;
- (9) To make, acknowledge, verify and file on behalf of the undersigned applications, consents to service of process and such other undertakings or reports as may be required by law with state commissioners or officers administering state securities laws;
- (10) If necessary, to endorse (in blank or otherwise) on behalf of the undersigned the certificate or certificates representing the Securities, or a stock power or powers attached to such certificate or certificates;
- (11) To sell a number of shares of Common Stock fewer than that set forth in the Custody Agreement pursuant to the Underwriting Agreement; and
- (12) To sign such other underwriting documents and agreements as necessary to consummate this transaction.

Each of the Attorneys is hereby empowered to determine in his or her sole discretion the time or times when, purpose for and manner in which any power herein conferred upon him or her shall be exercised, and the conditions, provisions or covenants of any instrument or document which may be executed by him or her pursuant hereto. The undersigned acknowledges that Stephen M. Case, Lennert J. Leader and Ellen M. Kirsh are officers and, with respect to Mr. Case, a director, of the Company.

The undersigned has reviewed a preliminary copy of the Underwriting Agreement filed with the Registration Statement on September 18, 1995 and understands the obligations and agreements of the undersigned set forth therein and acknowledges that the Underwriting Agreement will contain limitations on the undersigned's rights to sell securities of the Company during the lock-up period specified therein. All representations and warranties of the Selling Shareholders in the Underwriting Agreement are, with respect to the undersigned, and will be at the Closing Date as determined in accordance with the Underwriting Agreement, true and correct and will, as provided in the Underwriting Agreement, survive the termination of the Underwriting Agreement and the delivery of and payment for the Securities.

Upon the execution and delivery of the Underwriting Agreement by the Attorneys on behalf of the Selling Shareholders, the undersigned agrees to be bound by and to perform each and every covenant and agreement therein of the undersigned as a Selling Shareholder (including, without limitation, the indemnification and contribution arrangements set forth in the Underwriting Agreement).

The undersigned agrees, if so requested in writing, to provide an opinion of counsel, addressed to Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., which opinion shall expressly permit reliance thereon by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, setting forth such matters as Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. may reasonably request in rendering its opinion pursuant to the Underwriting Agreement.

This Power of Attorney and all authority conferred hereby are granted and conferred subject to and in consideration of the interests of the several Underwriters, the Company and the other Selling Shareholders who may become parties to the Underwriting Agreement, and for the purposes of completing the transactions contemplated by the Underwriting Agreement and this Power of Attorney.

This Power of Attorney is an agency coupled with an interest and all authority conferred hereby shall be irrevocable, and shall not be terminated by any act of the undersigned or by operation of law, whether by the death or incapacity of the undersigned (or either or any of them) or by the occurrence of any other event or events (including, without limiting the foregoing, the termination of any trust or estate for which the undersigned is acting as a fiduciary or fiduciaries or the dissolution or liquidation of any corporation or partnership). If after the execution hereof the undersigned (or either or any of them) should die or become incapacitated, or if any trust or estate should be terminated, or if any corporation or partnership should be dissolved or liquidated, or if any other such event or events shall occur, before the completion of the transactions contemplated by the Underwriting Agreement and this Power of Attorney, certificates representing the Securities shall be delivered by or on behalf of the undersigned in accordance with the terms and conditions of the Underwriting Agreement and of the Custody Agreement executed by the undersigned, and actions taken by the Attorneys or any one of them, hereunder shall be as valid as if such death, incapacity, termination, dissolution, liquidation or other event or

events had not occurred, regardless of whether or not the Custodian, Attorneys, Underwriters or any one of them, shall have received notice of such death, incapacity, termination, dissolution, liquidation or other event.

Notwithstanding any of the foregoing provisions, if all of the transactions contemplated by the Underwriting Agreement and this Power of Attorney are not completed prior to November 30, 1995, then from and after such date, the undersigned shall have the power, upon written notice to the Attorneys, to terminate this Power of Attorney subject, however, to all lawful action done or performed pursuant hereto prior to the receipt of actual notice.

The undersigned hereby represents, warrants and agrees for the benefit of the Company, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., the Underwriters listed in the Underwriting Agreement, Davis Polk & Wardwell and the other Selling Shareholders that:

- (i) This Power of Attorney has been duly authorized, executed and delivered by or on behalf of the undersigned.
- (ii) The execution and delivery by the undersigned of, and the performance by such Selling Shareholder of its obligations under, this Power of Attorney appointing each of the Attorneys as the undersigned's attorneys-in-fact to the extent set forth herein, relating to the transactions contemplated by the Underwriting Agreement and by the Registration Statement, the Custody Agreement signed by the undersigned and the Company, as Custodian, relating to the deposit of the Shares to be sold by such Selling Shareholder (the "Custody Agreement") and the Underwriting Agreement will not contravene any provision of applicable law, or the certificate of incorporation or by-laws of the undersigned (if the undersigned is a corporation) or any agreement or other instrument binding upon the undersigned or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the undersigned, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the undersigned of its obligations under this Power of Attorney, the Custody Agreement or the Underwriting Agreement, except such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Shares.
- (iii) The undersigned has, and on the Closing Date will have, valid title to the Shares to be sold by the undersigned and the legal right and power, and all authorization and approval required by law, to enter into this Power of Attorney, the Custody Agreement and the Underwriting Agreement and to sell, transfer and deliver the Shares to be sold by the undersigned.

- (iv) The Shares to be sold by the undersigned pursuant to this Agreement have been duly authorized and are validly issued, fully paid and non-assessable.
- (v) The Custody Agreement and the Underwriting Agreement have been duly authorized, executed and delivered by the undersigned and are valid and binding agreements of the undersigned.
- (vi) Delivery of the Shares to be sold by the undersigned pursuant to this Agreement will pass title to such Shares free and clear of any security interests, claims, liens, equities and other encumbrances.
- (vii) All information furnished by or on behalf of the undersigned for use in the Registration Statement and Prospectus is, and on the Closing Date will be, true, correct, and complete, and does not, and on the Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make such information not misleading.
- (viii) Certificates in negotiable form for all Securities to be sold by the undersigned under the Underwriting Agreement have been placed in custody with the Custodian for the purpose of effecting delivery under the Underwriting Agreement.
- (ix) Except as noted by the undersigned in Attachment B hereto, the undersigned is not affiliated with or a person associated with a member of the National Association of Securities Dealers, Inc.
- (x) The undersigned acknowledges that (a) the inclusion of the Securities to be sold by the undersigned under the Underwriting Agreement in the Registration Statement fully satisfies any and all registration rights granted to the undersigned by the Company pursuant to any agreement providing for such rights (a "Registration Agreement") and (b) it has received notice of the Registration Statement and waives the requirement of any notice period contained in any Registration Agreement.

The Attorneys, and any of them, shall be entitled to act and rely upon any representation, warranty, agreement, statement, request, notice or instructions respecting this Power of Attorney given by the undersigned, not only as to the authorization, validity and effectiveness thereof, but also as to the truth and acceptability of any information therein contained; provided, however, that any statement or notice to the Attorneys with respect to the date of delivery under the Underwriting Agreement or with respect to the non-effectiveness or termination of the Underwriting Agreement, or advice that the Underwriting Agreement has not been executed and delivered, shall have been confirmed in writing to the Attorneys by the Representatives. In acting hereunder, the Attorneys may also rely on the representations, warranties and agreements of the undersigned made in the

Underwriting Agreement executed by the Attorneys on behalf of the undersigned and in the Custody Agreement executed by the undersigned.

The foregoing representations, warranties and agreements, as well as those contained in the Underwriting Agreement, are made for the benefit of, and may be relied upon by, the other Selling Shareholders, the Attorneys, the Company, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., the Underwriters, Davis Polk & Wardwell and the Custodian and their representatives, agents and counsel.

It is understood that the Attorneys assume no responsibility or liability to any person other than to deal with the certificates for shares of Common Stock deposited with the Custodian pursuant to the Custody Agreement and the proceeds from the sale of shares of Common Stock represented thereby in accordance with the provisions hereof. The Attorneys (in such capacity) make no representations with respect to and shall have no responsibility for the Registration Statement or the Prospectus nor, except as herein expressly provided, for any aspect of the offering of Common Stock, and the Attorneys shall not be liable for any error of judgment or for any act done or omitted or for any mistake of fact or law except for the Attorneys' own gross negligence or bad faith. The undersigned agrees to indemnify the Attorneys for and to hold the Attorneys, jointly and severally, free from and harmless against any and all loss, claim, damage, liability or expense incurred by or on behalf of the Attorneys, or any of them, arising out of or in connection with acting as Attorneys under this Power of Attorney, as well as the cost and expense of defending against any claim of liability hereunder, and not due to the Attorneys' own gross negligence or bad faith. The undersigned agrees that the Attorneys may consult with counsel of their choice (which may but need not be counsel for the Company) and the Attorneys shall have full and complete authorization and protection for any action taken or suffered by the Attorneys, or any of them hereunder, in good faith and in accordance with the opinion of such counsel.

It is understood that the Attorneys shall serve entirely without compensation.

This Power of Attorney shall be governed by the laws of the State of Delaware.

Witness the due execution of the foregoing Power of Attorney as of
October 4, 1995.

Print Name and Address:

Brewster Kable
690 5th St
San Francisco CA 94114

Very truly yours,

BK *
Signature(s)

_____*
Signature(s)

SIGNATURE GUARANTEED
Signature guaranteed by NATIONS BANK, N.A.
By: [Signature] AUTHORIZED SIGNATURE
(Note: The signature(s) MUST be 1990 3 4 1 7
guaranteed by a commercial bank
or trust company or a broker which
is a member of the New York Stock
Exchange, American Stock Exchange
or Pacific Stock Exchange) SR

Fill in your telephone number,
telecopier number, and telex
number

Telephone: 415-356-5410

Telecopier: 415-356-5444

Telex: _____

Fill in your Social Security
Number(s) or Federal Tax I.D.
Number(s)

107-46-2917

* To be signed in exactly the same manner as the shares are registered.

MAXIMUM NUMBER OF SHARES TO BE SOLD

ATTACHMENT B

**STATEMENT OF AFFILIATION WITH
NATIONAL ASSOCIATION OF SECURITIES
DEALERS, INC. MEMBER**

I, Selling Shareholder, am an affiliate of or a person directly or indirectly associated with a member of the National Association of Securities Dealers, Inc. as briefly described below:

T3/575882.1

AMERICA ONLINE, INC.

LETTER OF TRANSMITTAL AND CUSTODY AGREEMENT

America Online, Inc.
8619 Westwood Center Drive
Vienna, Virginia 22182-2285

Attention: Eric L. Keller, Esquire

Ladies and Gentlemen:

There are delivered to you (the "Custodian") herewith certificates representing shares of Common Stock, par value \$.01 per share ("Common Stock"), of American Online, Inc. a Delaware corporation (the "Company") as set forth at the end of this letter on the page entitled "CERTIFICATES DEPOSITED". The certificates representing shares of Common Stock delivered herewith are sometimes collectively referred to herein as the "Securities." Each of the Securities so delivered is accompanied by a duly executed assignment form duly endorsed for transfer and are in negotiable form bearing the signature of the undersigned guaranteed by a commercial bank or trust company having an office or a correspondent in New York City, New York or by a member firm of the New York, American or Pacific Stock Exchange, provided that each certificate may instead be accompanied by a duly executed stock power or powers in blank, bearing the signature of the undersigned so guaranteed. The stock certificates are to be held by you as Custodian for the account of the undersigned and are to be disposed of by you in accordance with this Letter of Transmittal and Custody Agreement (the "Custody Agreement") and the Power of Attorney referred to below.

If the undersigned is acting as a fiduciary, officer, partner or agent, the undersigned has also delivered certified copies of the appropriate instruments pursuant to which the undersigned is authorized to act hereunder.

The undersigned agrees to deliver to the Attorneys (as herein defined) or to you such additional documentation as the Attorneys, or any of them, or the Company or the Representatives (as herein defined) or any of their respective counsel may request to effectuate or confirm compliance with any of the provisions hereof or of the Underwriting Agreement (as herein defined), all of the foregoing to be in form and substance satisfactory in all respects to the Attorneys and you or such counsel.

Concurrently with the execution and delivery of this Custody Agreement, the undersigned has executed a power of attorney (the "Power of Attorney") to Stephen M. Case, Lennert J. Leader and Ellen M. Kirsh (individually, an "Attorney" and collectively, the "Attorneys"), authorizing the Attorneys, each with full power and authority to act alone, including full power of substitution, to sell from the number of securities represented by the certificates deposited with you hereunder that number of Securities, and for that purpose to enter into and perform an underwriting agreement (the "Underwriting Agreement") among the Company, certain securityholders of the Company including the undersigned (the "Selling Shareholders"), Morgan Stanley & Co. Incorporated, Goldman Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Alex. Brown & Sons Incorporated, as the representatives (the "Representatives") of and on behalf of each of the several underwriters to be named in the Underwriting Agreement (the "Underwriters"). All terms not otherwise defined herein shall have the respective meanings ascribed to such terms in the Underwriting Agreement.

You are authorized and directed to hold the Securities deposited with you hereunder in your custody, and on the Closing Date or such other date specified in the Underwriting Agreement, you shall (i) take all necessary action to cause the Securities to be sold and transferred on the books of the Company into such names as the Representatives, on behalf of the several Underwriters, shall have instructed you and to surrender the certificates representing the shares of Common Stock to the transfer agent for the Common Stock, in exchange for new certificates for shares of Common Stock registered in such names and in such denominations as the Representatives shall have instructed you; (ii) deliver such new certificates to the Representatives, for the accounts of the several Underwriters, against payment for such Securities at the purchase price per share as determined in accordance with the Underwriting Agreement, and give receipt for such payment; (iii) deposit the same to your account as Custodian, and draw upon such account to pay such expenses, if any (the "Expenses"), as you may be instructed to pay by the Attorneys, or any of them; (iv) when instructed by an Attorney to do so, you are to transmit to the undersigned, within 24 hours of such instruction to you, the balance, if any, of the amount received by you as payment for the Securities sold after deducting the Expenses. Such balance is to be paid in the manner requested by the undersigned at the end of this Custody Agreement or in such manner as you, in accordance with the terms hereof, shall deem appropriate. With such remittance you shall also return to the undersigned new certificates representing the number of shares of Common Stock, if any, equal to the number of Securities deposited which are in excess of the number of Securities sold by the undersigned to the Underwriters.

If the Underwriting Agreement shall not have been entered into prior to November 30, 1995, then, upon the written request of the undersigned to you (accompanied by written notice of termination of the Power of Attorney addressed to each of the Attorneys, with a copy to you) on or after that date, you are to return to the undersigned the Securities deposited with you hereunder, together with any stock powers delivered herewith.

Under the terms of the Power of Attorney, the authority conferred thereby is granted, made and conferred subject to and in consideration of the interests of the Underwriters, the Company and the Selling Shareholders and, prior to November 30, 1995, is irrevocable and not subject to termination by the undersigned or by operation of law, whether by the death, incapacity, termination, dissolution or liquidation of the undersigned or otherwise, and the obligations of the undersigned pursuant to the Underwriting Agreement are similarly not subject to termination and shall remain in full force and effect until such date and, to the extent provided therein, after such date. Accordingly, the certificates deposited with you hereunder and this Custody Agreement and your authority hereunder are subject to the interests of the several Underwriters, the Company and the other Selling Shareholders, and this Custody Agreement and your authority hereunder are irrevocable and are not subject to termination by the undersigned or by operation of law, whether by the death or incapacity of the undersigned, the termination of any trust or estate, the death or incapacity of one or more trustees, guardians, executors or administrators under such trust or estate, the dissolution or liquidation of any corporation or partnership or the occurrence of any other event. If the undersigned should die or become incapacitated, if any trust or estate should be terminated, if any corporation or partnership should be dissolved or liquidated, or if any other such event should occur before the delivery of the Securities to be sold by the undersigned under the Underwriting Agreement, certificates for such Securities shall be delivered by you on behalf of the undersigned in accordance with the terms and conditions of the Underwriting Agreement and this Custody Agreement, and action taken by you pursuant to this Custody Agreement shall be as valid as if such death or incapacity, termination, dissolution, liquidation or other event had not occurred, regardless of whether or not you or the Attorneys, or any of them, shall have received notice of such death, incapacity, termination, dissolution, liquidation or other event.

Until payment of the purchase price for the Securities has been made to you by or for the account of the several Underwriters, the undersigned shall remain the owner of the Securities and shall have the right to vote the Securities and all other securities, if any, represented by the certificates deposited with you hereunder and to receive all dividends and distributions thereon.

You shall be entitled to act and rely upon any statement, request, notice or instructions respecting this Custody Agreement given to you on behalf of the undersigned, if the same shall have been made or given to you by the undersigned, or by the Attorneys, or any of them; provided, however, that you shall not be entitled to act on any statement or notice to you with respect to the Closing Date under the Underwriting Agreement, or with respect to the non-effectiveness or termination of the Underwriting Agreement, or advising that the Underwriting Agreement has not been executed and delivered, unless such statement or notice shall have been confirmed in writing to you by the Representatives.

In taking any action requested or directed by the Representatives under the terms of this Custody Agreement, you will be entitled to rely upon a writing signed by an authorized employee of Morgan Stanley & Co. Incorporated.

It is understood that you assume no responsibility or liability to any person other than to deal with the certificate(s) deposited with you hereunder and the proceeds from the sale of all or a portion of the securities represented thereby in accordance with the provisions of this Custody Agreement, and the undersigned agrees to indemnify and hold you harmless with respect to anything done by you in good faith in accordance with the foregoing instructions.

The undersigned hereby represents, warrants and agrees for the benefit of the Custodian, the Company, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., the Underwriters listed in the Underwriting Agreement, Davis Polk & Wardwell and the other Selling Shareholders that:

- (i) This Agreement has been duly authorized, executed and delivered by or on behalf of the undersigned;
- (ii) The execution and delivery by the undersigned of, and the performance by the undersigned of its obligations under this Custody Agreement will not contravene any provision of applicable law, or the certificate of incorporation or by-laws of the undersigned, (if the undersigned is a corporation), or any agreement or other instrument binding upon the undersigned or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the undersigned, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the undersigned of its obligations under this Agreement; and
- (iii) The representations, warranties and agreements contained in the Power of Attorney are hereby repeated and such representations, warranties and agreements are made for the benefit of, and may be relied upon by the Custodian, the Attorneys, the Underwriters and their representatives, agents and counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. and Davis Polk and Wardwell, as counsel for the Company and the Selling Stockholder, and may be specifically relied upon by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. and Davis Polk and Wardwell, for purposes of the opinions to be delivered by them pursuant to the Underwriting Agreement. The Selling Stockholder agrees to notify you, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. and Davis Polk and Wardwell, promptly in writing if any of the foregoing representations do not continue to be true and accurate as of the Closing.

The Custody Agreement shall be governed by the laws of the State of Delaware.

If any provision or provisions of this Custody Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (i) the validity, legality and enforceability of the remaining provisions of this Custody Agreement (including without limitation, all

portions of any paragraph of this Custody Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of this Custody Agreement (including, without limitation, all portions of any paragraph of this Custodian Agreement containing any such provisions held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provisions held invalid, illegal or unenforceable.

Please acknowledge your acceptance hereof as Custodian, and receipt of the certificate(s) deposited with you hereunder, by executing and returning the enclosed copy hereof to the undersigned.

Dated: _____, 1995

Print Name(s) and Address:

Brewster Kahle

Very truly yours,

BT
Signature(s)

SIGNATURE GUARANTEED
MEDALLION GUARANTEED
NATIONS BANK, N.A.

Wendy Cloughan
Vice President
AUTHORIZED SIGNATURE
X 9 0 0 3 4 1 7
SECURITIES TRANSFER AGENTS MEDALLION PROGRAM™
SR

Signature(s)

Social Security # or

Taxpayer I.D. #: 107-46-2917

Telephone Number:

(415) 356-5410

Telecopy Number:

(415) 356-5444

* To be signed in exactly the same manner as the securities are registered.

Instruction: Complete each column as to certificates to be deposited with the Custodian.

CERTIFICATES DEPOSITED

<u>Stock</u> <u>Cert. No.</u>	Number of Shares of Common Stock Represented by <u>Each Certificate</u>	Maximum Number of Shares of Common Stock To Be Sold <u>from Certificate*</u>
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TOTAL:

_____ 40,000 _____

* If no indication is made as to the certificates from which securities to be sold shall be allocated, then selection will be made at the Custodian's discretion. The Attorneys do not have the power to sell a greater number of securities than is listed in this column, although they may sell a lesser number.

Instruction: Indicate how you wish to receive payment for the securities sold to the Underwriters. Please note that if you are selling securities held by a corporation or other association or in the name of a trust, payment will be made only to the corporation or other association or trust. A wire transfer can be made only to an account standing in exactly the same name as the person or entity, including trusts, corporations or other associations, holding the securities being sold.

MANNER OF PAYMENT

I request that payment of the net proceeds from the sale of the shares of Common Stock of the Company to be sold by me pursuant to the Underwriting Agreement be made in the following manner (CHECK ONE):

☒ CHECK made payable to:

Brewster Kahle
to be sent to the following address:

690 Fifth St

San Francisco CA 94114
Telephone (415) 356-5410

☐ WIRE TRANSFER to the following account:

Account No. _____

Bank _____
(Name)

(Address)

ABA No. _____

Telephone () _____

☐ OTHER (please specify):

CUSTODIAN'S ACKNOWLEDGEMENT AND RECEIPT

America Online, Inc., as Custodian, acknowledges acceptance of the duties of the Custodian under the foregoing Custody Agreement and receipt of the certificates referred to therein.

Dated: _____, 1995

By _____

Its _____

DO NOT DETACH FROM CUSTODY AGREEMENT

T3/575876.1

**Request for Taxpayer
Identification Number and Certification**

Give form to the
requester. Do NOT
send to the IRS.

Please print or type

Name (If joint names, list first and circle the name of the person or entity whose number you enter in Part I below. See instructions on page 2 if your name has changed.)

Brewster Kahle

Business name (Sole proprietors see instructions on page 2.)

Please check appropriate box:

☐ Individual/Sole proprietor

☒ Corporation

☐ Partnership

☐ Other ▶

Address (number, street, and apt. or suite no.)

690 Fifth St

City, state, and ZIP code

San Francisco CA 94114

Requester's name and address (optional)

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. For individuals, this is your social security number (SSN). For sole proprietors, see the instructions on page 2. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How To Get a TIN* below.

Social security number

11217416219117

OR

Employer identification number

11217416219117

List account number(s) here (optional)

Part II For Payees Exempt From Backup Withholding (See Part II instructions on page 2)

Note: If the account is in more than one name, see the chart on page 2 for guidelines on whose number to enter.

Part III Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.

Certification Instructions.—You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because of underreporting interest or dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, the acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally payments other than interest and dividends, you are not required to sign the Certification, but you must provide your correct TIN. (Also see Part III instructions on page 2.)

Sign
Here

Signature ▶

BK

Date ▶

June

1995

Section references are to the Internal Revenue Code.

Purpose of Form.—A person who is required to file an information return with the IRS must get your correct TIN to report income paid to you, real estate transactions, mortgage interest you paid, the acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA. Use Form W-9 to give your correct TIN to the requester (the person requesting your TIN) and, when applicable, (1) to certify the TIN you are giving is correct (or you are waiting for a number to be issued), (2) to certify you are not subject to backup withholding, or (3) to claim exemption from backup withholding if you are an exempt payee. Giving your correct TIN and making the appropriate certifications will prevent certain payments from being subject to backup withholding.

Note: If a requester gives you a form other than a W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

What Is Backup Withholding?—Persons making certain payments to you must withhold and pay to the IRS 31% of such

payments under certain conditions. This is called "backup withholding." Payments that could be subject to backup withholding include interest, dividends, broker and barter exchange transactions, rents, royalties, nonemployee pay, and certain payments from fishing boat operators. Real estate transactions are not subject to backup withholding.

If you give the requester your correct TIN, make the proper certifications, and report all your taxable interest and dividends on your tax return, your payments will not be subject to backup withholding. Payments you receive will be subject to backup withholding if:

1. You do not furnish your TIN to the requester, or
2. The IRS tells the requester that you furnished an incorrect TIN, or
3. The IRS tells you that you are subject to backup withholding because you did not report all your interest and dividends on your tax return (for reportable interest and dividends only), or
4. You do not certify to the requester that you are not subject to backup withholding under 3 above (for reportable

interest and dividend accounts opened after 1983 only), or

5. You do not certify your TIN. See the Part III instructions for exceptions.

Certain payees and payments are exempt from backup withholding and information reporting. See the Part II instructions and the separate instructions for the Requester of Form W-9.

How To Get a TIN.—If you do not have a TIN, apply for one immediately. To apply, get Form SS-5, Application for a Social Security Number Card (for individuals), from your local office of the Social Security Administration, or Form SS-4, Application for Employer Identification Number (for businesses and all other entities), from your local IRS office.

If you do not have a TIN, write "Applied For" in the space for the TIN in Part I, sign and date the form, and give it to the requester. Generally, you will then have 60 days to get a TIN and give it to the requester. If the requester does not receive your TIN within 60 days, backup withholding, if applicable, will begin and continue until you furnish your TIN.

STOCK POWER

Instruction: Date, execute and have your signature guaranteed.* **DO NOT** fill in the number of Shares.

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto Morgan Stanley & Co. Incorporated, Goldman Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Alex. Brown & Sons Incorporated, as the representatives of the several Underwriters named in the Underwriting Agreement, _____ () shares of Common Stock, par value \$.01 per share, of America Online, Inc., a Delaware corporation, and does hereby irrevocably constitute and appoint Stephen M. Case, Lennert J. Leader and Ellen M. Kirsh, and each of them acting singly, as its Attorneys to transfer said shares on the books of said corporation with full power of substitution in the premises.

Dated: Oct 4, 1995

Signature(s):

BT

Signature guaranteed*

SIGNATURE GUARANTEED
MEDALLION GUARANTEED
NATIONS BANK, N.A.
Wendy Vaughan
Vice President AUTHORIZED SIGNATURE
(091) X9003417
SECURITIES TRANSFER AGENTS MEDALLION PROGRAMSM
SR

*The signature must be guaranteed by a commercial bank or a trust company or by a broker which is a member firm of the New York, American or Pacific Stock Exchange.

October __, 1995

Morgan Stanley & Co. Incorporated
Goldman Sachs & Co.
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Alex. Brown & Sons Incorporated
c/o Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Morgan Stanley & Co. International Limited
Goldman Sachs International Limited
Merrill Lynch International Limited
Alex. Brown & Sons Incorporated
c/o Morgan Stanley & Co. International Limited
25 Cabot Square
Canary Wharf
London E14 4QA
England


Dear Sirs:

The undersigned understands that Morgan Stanley & Co. Incorporated, Goldman Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Alex. Brown & Sons Incorporated, as U.S. Representatives of the several U.S. Underwriters (the "U.S. Underwriters"), and Morgan Stanley & Co. International Limited, Goldman Sachs International Limited, Merrill Lynch International Limited and Alex. Brown & Sons Incorporated, as representatives of the several international underwriters (together with the U.S. Underwriters, the "Underwriters") propose to enter into an Underwriting Agreement with America Online, Inc., a Delaware corporation (the "Company"), providing for the public offering (the "Public Offering") by the several underwriters, including yourselves, of an aggregate of 3,500,000 shares (the "Shares") of the Common Stock, \$.01 par value, of the Company (the "Common Stock"), of which 1,564,870 shares are to be sold by certain shareholders of the Company (the "Selling Shareholders").

In consideration of the Underwriters' agreement to purchase and make the Public Offering of the Shares, and for other good and valuable consideration, receipt of which is hereby acknowledged, the undersigned hereby agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the Underwriters, it will not, beginning on the date hereof and ending 90 days after the date of the Prospectus, (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or

exercisable or exchangeable for Common Stock, or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences or ownership of the Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. In addition, the undersigned agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the Underwriters, it will not, during the period beginning the date hereof and ending 90 days after the date of the Prospectus, make any demand for or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock.

Very truly yours,



(Name)

Brewster Kahle

690 Fifth St San Francisco CA 94114

(Address)